

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the 2015A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2015B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2015A Bonds and interest on the 2015B Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the 2015 Bonds.

\$14,645,000
CITY OF ESCONDIDO
REFUNDING REVENUE BONDS
(WASTEWATER SYSTEM) SERIES 2015A

\$5,060,000
CITY OF ESCONDIDO
REFUNDING REVENUE BONDS
(WASTEWATER SYSTEM) SERIES 2015B (TAXABLE)

Dated: Date of Issuance

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

The 2015 Bonds are being issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2015 Bonds will not receive securities representing their beneficial ownership in the 2015 Bonds purchased. Interest on the 2015 Bonds is payable on September 1, 2015 and each March 1 and September 1 thereafter, until the maturity thereof. The principal of and interest on the 2015 Bonds are payable by the Trustee to Cede & Co. and such interest and principal payments are to be disbursed to the Beneficial Owners of the 2015 Bonds through their nominees.

The 2015A Bonds are subject to optional redemption as more fully described herein. The 2015B Bonds are not subject to optional redemption prior to maturity.

The 2015 Bonds are being issued to provide funds, together with certain other moneys: (i) to refund all of the outstanding City of Escondido Revenue Certificates of Participation, (1996 Wastewater Refunding Project) Series 2004A and City of Escondido Revenue Certificates of Participation, (2004 Wastewater Capital Projects) Series 2004B (Taxable); and (ii) to pay costs of issuance of the 2015 Bonds, all as more fully described herein.

The 2015 Bonds are being issued pursuant to the Indenture of Trust, dated as of May 1, 2015, by and between the City of Escondido and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2015 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s Wastewater System remaining after payment of Operation and Maintenance Costs of the City’s Wastewater System, and from amounts on deposit in certain funds and accounts created under the Indenture.

The obligation of the City to pay principal of and interest on the 2015 Bonds is payable from Net Revenues on a parity with approximately \$42,222,408 aggregate principal amount of installment payments under the 2012 Installment Purchase Agreement and payments on four State Loans, as described herein. The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay principal of and interest on the 2015 Bonds, subject to the terms and conditions of the Indenture, as more fully described herein.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2015 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2015 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

MATURITY SCHEDULE – See Inside Cover Page

The 2015 Bonds are offered when, as and if issued and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the 2015 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by Jeffrey Epp, Esquire, City Attorney, for the Underwriter by its counsel, Best Best & Krieger LLP, San Diego, California, and for the Trustee by its counsel. It is anticipated that the 2015 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about May 14, 2015.

STIFEL

MATURITY SCHEDULE**BASE CUSIP®* 296343**

\$14,645,000
CITY OF ESCONDIDO
REFUNDING REVENUE BONDS
(WASTEWATER SYSTEM) SERIES 2015A

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®*</u> <u>Suffix</u>
2015	\$1,070,000	2.000%	0.350%	100.489	AA4
2016	960,000	4.000	0.450	104.586	AB2
2017	995,000	5.000	0.810	109.516	AC0
2018	1,045,000	5.000	1.120	112.523	AD8
2019	1,100,000	5.000	1.350	115.186	AE6
2020	1,160,000	5.000	1.580	117.311	AF3
2021	1,215,000	5.000	1.760	119.230	AG1
2022	1,280,000	5.000	1.940	120.724	AH9
2023	1,350,000	5.000	2.150	121.549	AJ5
2024	1,415,000	5.000	2.340	122.106	AK2
2025	1,490,000	5.000	2.470	122.875	AL0
2026	1,565,000	5.000	2.670	120.852 ^(c)	AM8

\$5,060,000
CITY OF ESCONDIDO
REFUNDING REVENUE BONDS
(WASTEWATER SYSTEM) SERIES 2015B
(TAXABLE)

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®*</u> <u>Suffix</u>
2015	\$440,000	0.400%	0.400%	100.000	AN6
2016	425,000	0.600	0.600	100.000	AP1
2017	430,000	1.150	1.150	100.000	AQ9
2018	435,000	1.650	1.650	100.000	AR7
2019	440,000	2.000	2.150	99.386	AS5
2020	450,000	2.250	2.450	99.010	AT3
2021	460,000	2.500	2.700	98.846	AU0
2022	475,000	2.750	2.950	98.693	AV8
2023	485,000	3.000	3.200	98.549	AW6
2024	505,000	3.000	3.400	96.831	AX4
2025	515,000	3.250	3.550	97.427	AY2

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(c) Priced to first optional redemption date of September 1, 2025 at par.

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2015 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2015 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2015 BONDS AT A LEVEL THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2015 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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

The 2015 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The 2015 Bonds have not been registered or qualified under the securities laws of any state. The Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exemption contained in such act.

The City maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2015 Bonds.

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**CITY OF ESCONDIDO
COUNTY OF SAN DIEGO
STATE OF CALIFORNIA**

MAYOR AND MEMBERS OF THE CITY COUNCIL

Sam Abed, Mayor
Michael Morasco, Deputy Mayor
Ed Gallo, Member
John Masson, Member
Olga Diaz, Member

STAFF

Clay Phillips, City Manager
Jeffrey Epp, Esq., City Attorney
Sheryl Bennett, Director of Administrative Services
Kenneth Hugins, City Treasurer
Ed Domingue, Director of Public Works
Diane Halverson, City Clerk
Christopher W. McKinney, Director of Utilities
Craig Whittemore, Deputy Director, Utilities, Construction and Engineering

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

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

Trustee/Escrow Bank

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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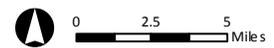
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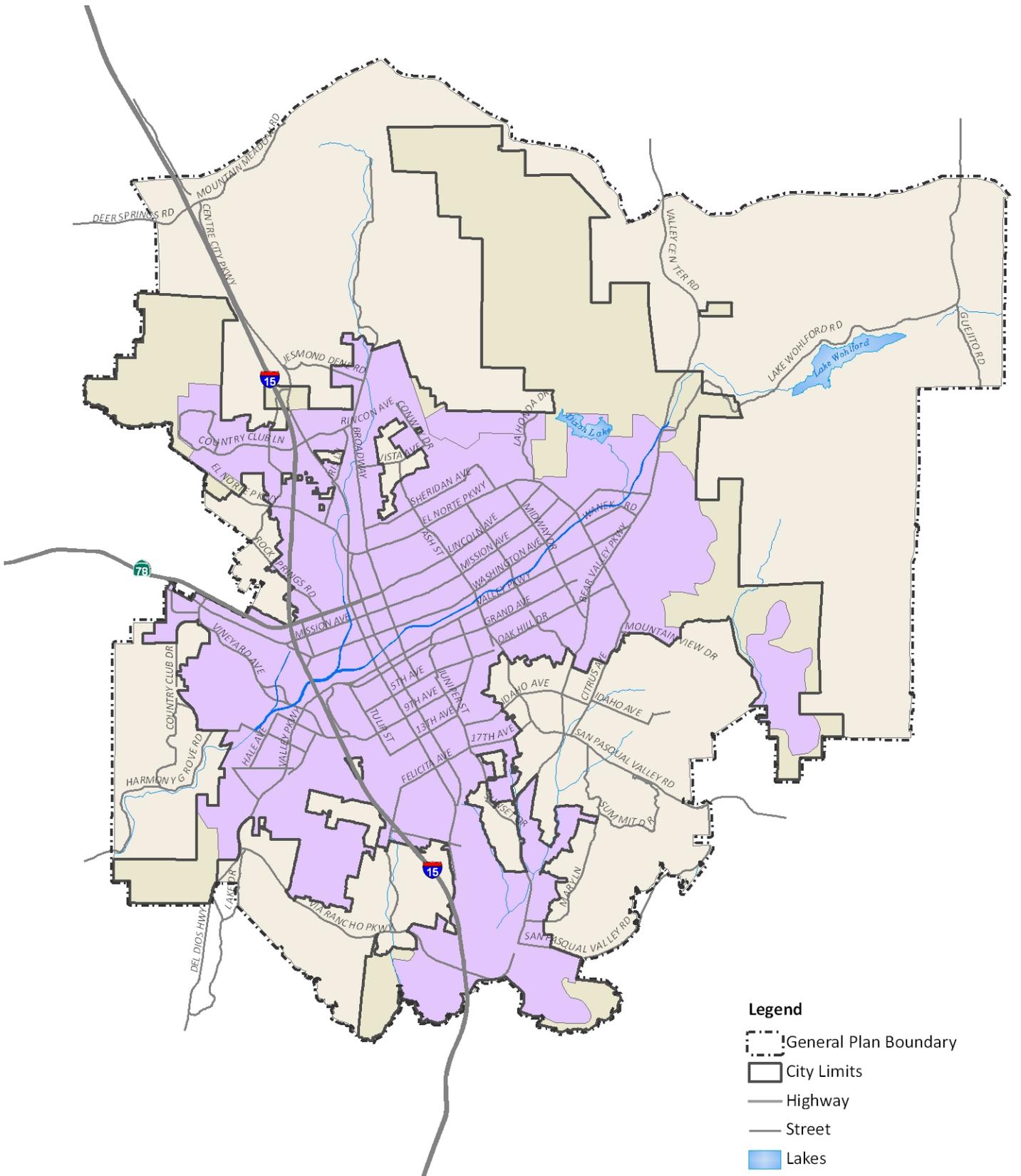
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- Escondido General Plan Area
- Freeways
- Highways



Escondido General Plan

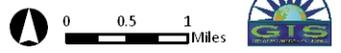
Regional Location

Source: SanGIS, City of Escondido



Legend

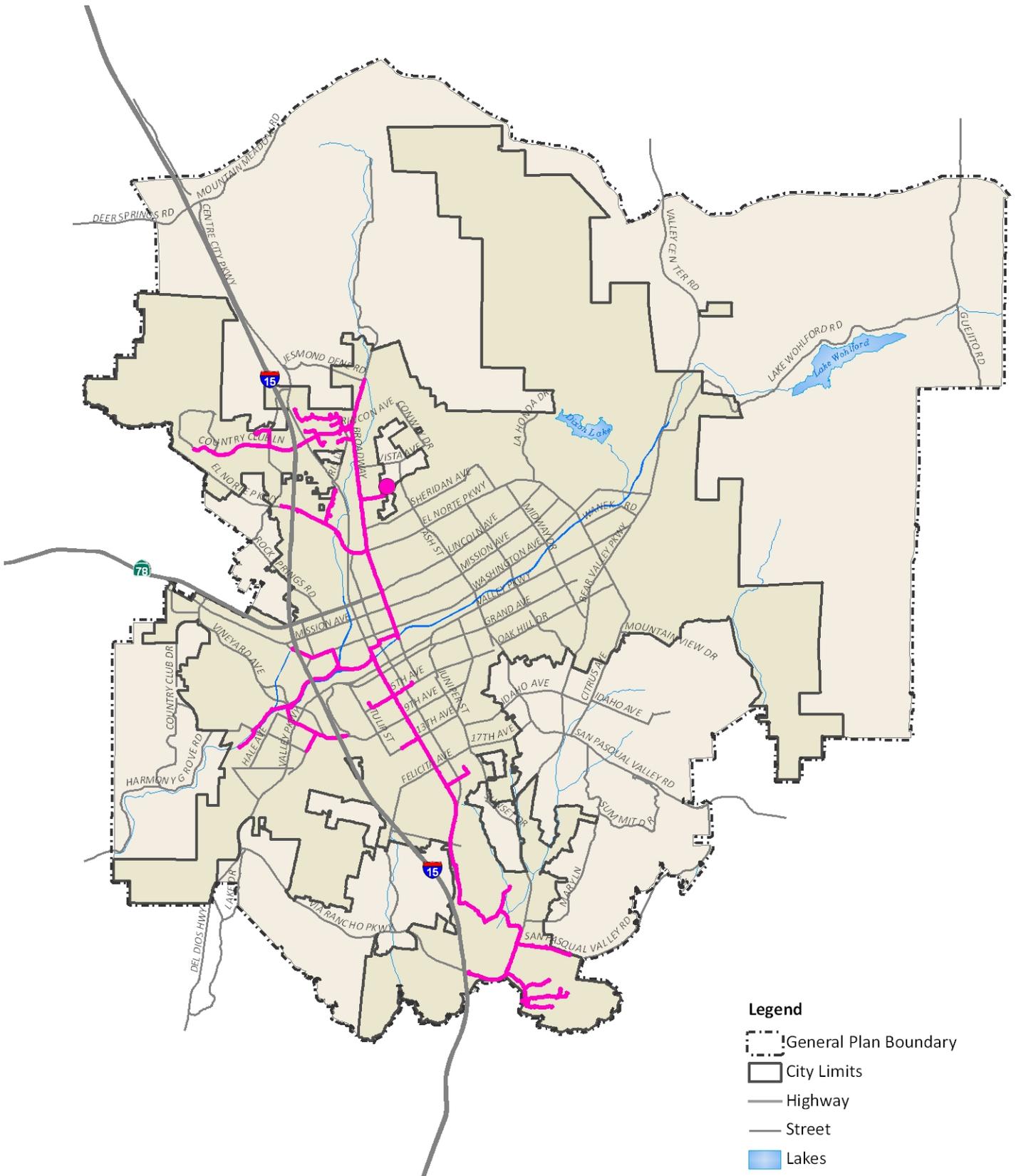
- General Plan Boundary
- City Limits
- Highway
- Street
- Lakes
- Escondido Creek (Channelized)
- Streams



Wastewater Service Area Boundary

City of Escondido

Wastewater Service Area



Recycled Water System

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Legend

- General Plan Boundary
- City Limits
- Highway
- Street
- Lakes
- Escondido Creek (Channelized)
- Streams



City of Escondido

Recycled Water System

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2015 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used and not otherwise defined in this Summary Statement have the meanings ascribed to them in this Official Statement.

Purpose. The 2015 Bonds are being issued to provide funds, together with certain other moneys: (i) to refund all of the outstanding City of Escondido Revenue Certificates of Participation, (1996 Wastewater Refunding Project) Series 2004A and City of Escondido Revenue Certificates of Participation, (2004 Wastewater Capital Projects) Series 2004B (Taxable); and (ii) to pay costs of issuance of the 2015 Bonds, all as more fully described herein. See the captions “REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Security for the 2015 Bonds. The 2015 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s Wastewater System remaining after payment of Operation and Maintenance Costs of the City’s Wastewater System, and from amounts on deposit in certain funds and accounts created under the Indenture. The obligation of The City to pay principal of and interest on the 2015 Bonds is payable from Net Revenues on a parity with payments with respect to approximately \$42,222,408 aggregate principal amount of installment payments under the 2012 Installment Purchase Agreement and payments on four State Loans, as described herein. The City may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2015 Bonds in the future as described herein.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2015 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2015 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

See the caption “SECURITY FOR THE 2015 BONDS.”

The Refunding Plan. A portion of the proceeds of the 2015 Bonds, together with moneys held in certain funds and accounts established in connection with the 2004 Certificates, will be transferred to The Bank of New York Mellon Trust Company, N.A., as trustee for the 2004 Certificates, to refund all of the 2004 Certificates, which are currently outstanding in the aggregate principal amount of \$25,990,000, on the date of issuance of the 2015 Bonds. See the caption “REFUNDING PLAN.”

Rate Covenant. The Indenture requires the City, to the fullest extent permitted by law, to fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service and any amounts required to be paid to the provider of a reserve fund surety bond, if any, in such Fiscal Year. See the caption “SECURITY FOR THE 2015 BONDS—Rate Covenant.”

Additional Contracts and Bonds Test. The Indenture permits the City to execute any Contracts or issue any Bonds on a parity with the obligation to pay principal of and interest on the 2015 Bonds, provided that certain conditions are satisfied as described herein. See the caption “SECURITY FOR THE 2015 BONDS—Additional Indebtedness.” The Indenture also permits the City to execute or issue obligations payable on a subordinate basis to the 2015 Bonds.

No Reserve Fund. No reserve fund has been established in connection with the issuance of the 2015 Bonds.

Redemption. The 2015A Bonds are subject to optional redemption prior to maturity as described herein. The 2015B Bonds are not subject to optional redemption prior to maturity. See the caption “THE 2015 BONDS—Redemption of the 2015 Bonds.”

The City and the Wastewater System. The City was incorporated under the general laws of the State of California in 1888. The City is located in north San Diego County, approximately 30 miles north of the City of San Diego. The City has a current population of approximately 147,000. The City’s Wastewater System serves a geographic area that includes approximately 90% of the land within City limits. For information concerning the Wastewater System, see the caption “THE WASTEWATER SYSTEM.” For general information regarding the City, see the caption “THE CITY” and Appendix B.

\$14,645,000
CITY OF ESCONDIDO
REFUNDING REVENUE BONDS
(WASTEWATER SYSTEM) SERIES 2015A

\$5,060,000
CITY OF ESCONDIDO
REFUNDING REVENUE BONDS
(WASTEWATER SYSTEM) SERIES 2015B
(TAXABLE)

INTRODUCTION

This Official Statement, including the cover page, the inside cover page and all appendices hereto, provides certain information concerning the sale and delivery of the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A (the “2015A Bonds”) and the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015B (Taxable) (the “2015B Bonds and, together with the 2015A Bonds, the “2015 Bonds”). The 2015 Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2015 (the “Indenture”), by and between the City of Escondido (the “City”) and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the “Trustee”). Descriptions and summaries of various documents set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in Appendix B.

The 2015 Bonds are being issued to provide funds, together with certain other moneys: (i) to refund all of the: (a) City of Escondido Revenue Certificates of Participation, (1996 Wastewater Refunding Project) Series 2004A (the “2004A Certificates”), which are currently outstanding in the aggregate principal amount of \$18,740,000; and (b) City of Escondido Revenue Certificates of Participation, (2004 Wastewater Capital Projects) Series 2004B (Taxable) (the “2004B Certificates” and, together with the 2004A Certificates, the “2004 Certificates”), which are currently outstanding in the aggregate principal amount of \$7,250,000; and (ii) to pay costs of issuance of the 2015 Bonds. See the captions “REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2015 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s Wastewater System remaining after payment of Operation and Maintenance Costs of the City’s Wastewater System, as such terms are defined in Appendix B, and from amounts on deposit in certain funds and accounts created under the Indenture.

The obligation of the City to make payments of principal of and interest on the 2015 Bonds is payable from Net Revenues on a parity with payments with respect to: (i) the Installment Purchase Agreement, dated as of February 1, 2012 (the “2012 Installment Purchase Agreement”), by and between the City and the Escondido Joint Powers Financing Authority (the “Authority”), which is currently outstanding in the aggregate principal amount of \$26,975,000; (ii) the Phase I HARRF State Loan entered into with the State Water Resources Control Board (the “SWRCB”), which is currently outstanding in the aggregate principal amount of \$2,852,437; (iii) the Water Reclamation Project State Loan entered into with the SWRCB, which is currently outstanding in the aggregate principal amount of \$6,584,788; (iv) the Tertiary Treatment Facility State Loan entered into with the SWRCB, which is currently outstanding in the aggregate principal amount of \$4,940,847; and (iv) the Blower State Loan entered into with the SWRCB, which is currently outstanding in the aggregate principal amount of \$869,336.

The Phase I HARRF State Loan, the Water Reclamation Project State Loan, the Tertiary Treatment Facility State Loan and the Blower State Loan are collectively referred to herein as the “State Loans.” The State Loans are described in further detail under the caption “THE WASTEWATER SYSTEM—Outstanding Obligations.”

The City may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2015 Bonds in the future as described under the caption “SECURITY FOR THE 2015 BONDS—Additional Indebtedness.”

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

The City regularly prepares a variety of reports, including audits, budgets and related documents. Any registered owner of the 2015 Bonds may obtain a copy of such reports, as available, from the Trustee or the City. Additional information regarding the Official Statement may be obtained by contacting the Trustee or the City of Escondido, 201 North Broadway, Escondido, California 92025, Attn: Director of Administrative Services.

REFUNDING PLAN

The City caused the execution and delivery of the 2004A Certificates, which are currently outstanding in the aggregate principal amount of \$18,740,000, pursuant to a Trust Agreement, dated as of December 1, 2004 (the “2004A Trust Agreement”), by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), as trustee (the “2004 Trustee”). Proceeds of the 2004A Certificates were applied to refund certain prior obligations of the City. The 2004A Certificates are payable from installment payments (the “2004A Installment Payments”) made under the Installment Purchase Agreement, dated as of December 1, 2004 (the “2004A Installment Purchase Agreement”), by and between the City and the Authority. The City plans to apply a portion of the proceeds of the 2015A Bonds, together with moneys held in certain funds and accounts established in connection with the 2004A Certificates, to prepay all of the 2004A Certificates and the related 2004A Installment Payments on or about May 26, 2015 (the “Prepayment Date”) at a prepayment price of the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

The City caused the execution and delivery of the 2004B Certificates, which are currently outstanding in the aggregate principal amount of \$7,250,000, pursuant to a Trust Agreement, dated as of December 1, 2004 (the “2004B Trust Agreement”), by and among the City, the Authority and the 2004 Trustee. Proceeds of the 2004B Certificates were applied to finance the costs of certain capital improvements to the City’s Wastewater System. The 2004B Certificates are payable from installment payments (the “2004B Installment Payments”) made under the Installment Purchase Agreement, dated as of December 1, 2004 (the “2004B Installment Purchase Agreement”), by and between the City and the Authority. The City plans to apply a portion of the proceeds of the 2015B Bonds, together with moneys held in certain funds and accounts established in connection with the 2004B Certificates, to prepay all of the 2004B Certificates and the related 2004B Installment Payments on the Prepayment Date at a prepayment price of the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

Under an Escrow Agreement (2004 Certificates), dated as of May 1, 2015 (the “Escrow Agreement”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Bank”) and as 2004 Trustee, the City will deliver a portion of the proceeds of the 2015A Bonds and the 2015B Bonds to the Escrow Bank for deposit in two escrow funds (the “2004A Escrow Fund” and the “2004B Escrow Fund,” respectively) established under the Escrow Agreement on or about the date of issuance of the 2015 Bonds. In addition, the 2004 Trustee will transfer certain moneys held in connection with the

2004A Certificates and the 2004B Certificates to the Escrow Agent for deposit in the 2004A Escrow Fund and the 2004B Escrow Fund, respectively, on or about the date of issuance of the Bonds.

The Escrow Agent will hold the moneys in the 2004A Escrow Fund and the 2004B Escrow Fund uninvested and apply such moneys to prepay all of the 2004A Certificates and all of the 2004B Certificates, respectively, on the Prepayment Date at a prepayment price of the applicable outstanding principal amount thereof, plus accrued interest with respect thereto, without premium.

As a result of the deposit of a portion of the proceeds of the 2015A Bonds with the 2004 Trustee and the application of funds as provided in the 2004A Trust Agreement, the 2004A Installment Payments and the 2004A Certificates will be defeased pursuant to the provisions of the 2004A Installment Purchase Agreement and the 2004A Trust Agreement under which the 2004A Certificates were delivered, as of the date of issuance of the 2015A Bonds.

As a result of the deposit of a portion of the proceeds of the 2015B Bonds with the 2004 Trustee and the application of funds as provided in the 2004B Trust Agreement, the 2004B Installment Payments and the 2004B Certificates will be defeased pursuant to the provisions of the 2004B Installment Purchase Agreement and the 2004B Trust Agreement under which the 2004B Certificates were delivered, as of the date of issuance of the 2015B Bonds.

The portion of the proceeds of the 2015A Bonds and the 2015B Bonds deposited with the 2004 Trustee is pledged solely to the payment of the 2004A Certificates and the 2004B Certificates, respectively, and will not be available for the payments of principal of and interest on the 2015A Bonds or the 2015B Bonds, as applicable.

THE 2015 BONDS

General Provisions

The 2015 Bonds will be issued in the aggregate principal amount of \$19,705,000. The 2015 Bonds will be dated as of the date of initial issuance thereof (the "Issuance Date"), will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable on September 1, 2015 and each March 1 and September 1 thereafter (each, an "Interest Payment Date"), and will mature on the dates set forth on the inside cover page hereof. Interest on the 2015 Bonds will be computed on the basis of a 360 day year composed of twelve 30 day months.

The 2015 Bonds will be issued only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2015 Bonds. Ownership interests in the 2015 Bonds may be purchased in book entry form, in denominations of \$5,000 or any integral multiple thereof. See the caption "—Book Entry Only System" below and Appendix D.

In the event that the book entry only system described below is discontinued, the principal of and redemption premium (if any) on the 2015 Bonds are payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in Los Angeles, California (the "Office of the Trustee"). Interest on the 2015 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "Registration Books") as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the "Record Date"), such interest to be paid by check of the Trustee, sent by first class mail on the applicable Interest Payment Date to the Owner at such Owner's address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2015 Bonds may, at such Owner's option, be paid interest by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the applicable

Record Date. The principal of and interest and premium, if any, on the 2015 Bonds will be payable in lawful money of the United States of America.

Interest on any 2015 Bond will be payable from the Interest Payment Date preceding the date of issuance thereof, unless such date is after a Record Date and on or before the succeeding Interest Payment Date, in which case interest thereon will be payable from such Interest Payment Date, or unless such date is on or before August 15, 2015, in which case interest thereon will be payable from the Issuance Date.

Transfers and Exchanges Upon Termination of Book Entry Only System

In the event that the book entry system described above is abandoned, the 2015 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2015 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2015 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. The Trustee is not required to register the transfer of any 2015 Bond during the period in which the Trustee is selecting 2015 Bonds for redemption and any 2015 Bond that has been selected for redemption.

Whenever any 2015 Bond or 2015 Bonds are surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new 2015 Bond or 2015 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity and series. The Trustee will require the 2015 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2015 Bonds, the Trustee will cancel and destroy the 2015 Bonds that it has received.

2015 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity and series. The Trustee is not required to exchange any 2015 Bond during the period in which the Trustee is selecting 2015 Bonds for redemption and any 2015 Bond that has been selected for redemption. The Trustee will require the 2015 Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2015 Bonds, the Trustee will cancel and destroy the 2015 Bonds that it has received.

Redemption of the 2015 Bonds

The 2015A Bonds with stated maturities on September 1, 2026, are subject to redemption prior to their respective stated maturities, as a whole or in part on any date as directed by the City and by lot within each maturity in integral multiples of \$5,000, on or after September 1, 2025, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

The 2015B Bonds are not subject to redemption prior to their respective stated maturities.

Notice of Redemption

The City will give the Trustee written notice of its intention to exercise its option to redeem 2015 Bonds not less than 45 days in advance of the date of redemption. Notice of redemption will be mailed by first class mail at least 20 days but not more than 60 days before any Redemption Date, to the respective Owners of any 2015 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services; provided that, in the case of notice of optional redemption not related to an advance or current refunding, such notice may be given only if sufficient funds have been deposited with the Trustee to pay the applicable Redemption Price of the 2015 Bonds to be redeemed, provided that such notice may be cancelled by the City upon Written Request delivered to the Trustee not less than five days prior to such Redemption Date. Each notice of redemption will state the date of

notice, the Redemption Date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, if less than all 2015 Bonds of any such maturity are to be redeemed, the serial numbers of the 2015 Bonds of such maturity to be redeemed by giving the individual number of each 2015 Bond or by stating that all 2015 Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of 2015 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the Redemption Date there will become due and payable on each of said 2015 Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2015 Bond to be redeemed in part only, together with interest accrued thereon to the Redemption Date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such Redemption Date interest thereon will cease to accrue, and will require that such 2015 Bonds be then surrendered to the Trustee. Neither the failure to receive such notice nor any defect in the notice or the mailing thereof will affect the validity of the redemption of any 2015 Bond. Notice of redemption of 2015 Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

With respect to any notice of optional redemption of 2015 Bonds, such notice will state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such 2015 Bonds to be redeemed and that, if such moneys have not been so received, said notice will be of no force and effect and the Trustee will not be required to redeem such 2015 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Book Entry Only System

One fully-registered 2015 Bond of each maturity will be issued in the principal amount of the 2015 Bonds of such maturity. Such 2015 Bond will be registered in the name of Cede & Co. and will be deposited with DTC.

The City may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). In that event, the 2015 Bonds will be printed and delivered and will be governed by the provisions of the Indenture with respect to payment of principal and interest and rights of exchange and transfer.

The City cannot and does not give any assurances that DTC participants or others will distribute payments of principal of and interest on the 2015 Bonds received by DTC or its nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or that DTC will service and act in the manner described in this Official Statement. See Appendix D for additional information concerning DTC.

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DEBT SERVICE PAYMENT SCHEDULE

Set forth below is an annualized schedule of principal of and interest on the 2015 Bonds and other Bonds and Contract (as such terms are defined in Appendix B) payments for the period ending September 1 in each of the years indicated:

<i>Period Ending September 1</i>	<i>2015A Bonds</i>			<i>2015B Bonds</i>			<i>2015 Bonds Total</i>	<i>Parity Obligations⁽¹⁾</i>	<i>Total 2015 Bonds and Parity Obligations</i>
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>			
2015	\$ 1,070,000	\$ 205,247	\$ 1,275,247	\$ 440,000	\$ 31,612	\$ 471,612	\$ 1,746,859	\$ 4,371,544	\$ 6,118,402
2016	960,000	669,150	1,629,150	425,000	104,598	529,598	2,158,748	3,759,791	5,918,538
2017	995,000	630,750	1,625,750	430,000	102,048	532,048	2,157,798	3,760,141	5,917,938
2018	1,045,000	581,000	1,626,000	435,000	97,103	532,103	2,158,103	3,758,741	5,916,843
2019	1,100,000	528,750	1,628,750	440,000	89,925	529,925	2,158,675	3,762,141	5,920,816
2020	1,160,000	473,750	1,633,750	450,000	81,125	531,125	2,164,875	3,765,141	5,930,016
2021	1,215,000	415,750	1,630,750	460,000	71,000	531,000	2,161,750	3,757,741	5,919,491
2022	1,280,000	355,000	1,635,000	475,000	59,500	534,500	2,169,500	3,271,350	5,440,850
2023	1,350,000	291,000	1,641,000	485,000	46,438	531,438	2,172,438	3,273,550	5,445,988
2024	1,415,000	223,500	1,638,500	505,000	31,888	536,888	2,175,388	1,546,498	3,721,885
2025	1,490,000	152,750	1,642,750	515,000	16,738	531,738	2,174,488	1,545,048	3,719,535
2026	1,565,000	78,250	1,643,250	-	-	-	1,643,250	1,454,081	3,097,331
2027	-	-	-	-	-	-	-	2,371,150	2,371,150
2028	-	-	-	-	-	-	-	2,368,150	2,368,150
2029	-	-	-	-	-	-	-	2,367,400	2,367,400
2030	-	-	-	-	-	-	-	2,368,650	2,368,650
2031	-	-	-	-	-	-	-	2,371,650	2,371,650
2032	-	-	-	-	-	-	-	2,370,250	2,370,250
2033	-	-	-	-	-	-	-	2,367,000	2,367,000
2034	-	-	-	-	-	-	-	2,370,250	2,370,250
2035	-	-	-	-	-	-	-	2,368,063	2,368,063
2036	-	-	-	-	-	-	-	2,367,313	2,367,313
2037	-	-	-	-	-	-	-	2,367,750	2,367,750
2038	-	-	-	-	-	-	-	2,370,000	2,370,000
2039	-	-	-	-	-	-	-	2,367,500	2,367,500
2040	-	-	-	-	-	-	-	2,370,250	2,370,250
2041	-	-	-	-	-	-	-	<u>2,367,750</u>	<u>2,367,750</u>
TOTAL	<u>\$14,645,000</u>	<u>\$4,604,897</u>	<u>\$19,249,897</u>	<u>\$5,060,000</u>	<u>\$731,972</u>	<u>\$5,791,972</u>	<u>\$25,041,869</u>	<u>\$ 73,558,889</u>	<u>\$98,600,757</u>

⁽¹⁾ Includes the 2012 Installment Purchase Agreement and the State Loans. See the caption "THE WASTEWATER SYSTEM—Outstanding Obligations." Period ending September 1, 2015 also includes debt service on the 2004A Certificates and the 2004B Certificates, which are being refunded from proceeds of the 2015 Bonds as described under the caption "REFUNDING PLAN."
Source: Stifel, Nicolaus & Company, Incorporated.

SECURITY FOR THE 2015 BONDS

Limited Obligations Payable From Net Revenues

The City is obligated to make payments of principal of and interest on the 2015 Bonds solely from Net Revenues of the Wastewater System. The term “Net Revenues” means, for any Fiscal Year of the City (currently, the City’s Fiscal Year commences July 1 of each year) (“Fiscal Year”), the Revenues for such Fiscal Year less the Operation and Maintenance Costs of the Wastewater System for such Fiscal Year. The obligation to make payments of principal of and interest on the 2015 Bonds is payable on a parity with the obligation of the City to make payments with respect to approximately \$42,222,408 aggregate principal amount of installment payments under the 2012 Installment Purchase Agreement and payments under the State Loans. See Appendix B for a detailed discussion of the terms of the Indenture. See the caption “THE WASTEWATER SYSTEM—Outstanding Obligations” for a discussion of parity obligations.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2015 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2015 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Rate Covenant

The City will, to the fullest extent permitted by law, fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service and any amounts required to be paid to the provider of a reserve fund surety bond, if any, in such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the foregoing requirements. To the extent that the covenant with respect to rates and charges in connection with any Bonds or Contracts differs from the foregoing covenant, the City will also comply with the covenant with respect to rates and charges in connection with such Bonds or Contracts.

Additional Indebtedness

Pursuant to the Indenture and the 2012 Installment Purchase Agreement, the City may at any time execute any Contracts or issue any Bonds payable from Net Revenues on a parity with the obligation to pay principal of and interest on the 2015 Bonds and the installment payments under the 2012 Installment Purchase Agreement, provided that certain conditions are satisfied as provided below.

(a) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the City of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, produce a sum equal to at least 115% of the Debt Service for such twelve month period; and

(b) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Contract or the date of adoption by the City

Council of the City of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such twelve month period to increases or decreases in rates and charges for the Wastewater Service approved and in effect as of the date of calculation, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, produce a sum equal to at least 115% of the Debt Service for such twelve month period plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such twelve month period; and

(c) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project to be financed from proceeds of such Contracts or Bonds, as evidenced by a certificate on file with the City, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for Wastewater Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the Manager on file with the City, produce a sum equal to at least 115% of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

No Reserve Fund

No reserve fund has been established in connection with the issuance of the 2015 Bonds.

Insurance; Reconstruction, Repair and Replacement

The City has covenanted to maintain insurance on the Wastewater System with responsible insurers in amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with facilities similar to the Wastewater System so long as such insurance is available from reputable insurance companies at reasonable rates. The City maintains liability insurance coverage through the San Diego Pooled Insurance Program Authority (“SANDPIPA”), a joint exercise of powers authority of which the City is a member. The City carries a self-insured retention of \$500,000 for liability and is insured for amounts between \$500,000 and \$2,500,000. In addition, SANDPIPA has purchased excess insurance coverage for amounts between \$2,500,000 and \$47,000,000 for its members, including the City. The City currently expects to terminate its membership in SANDPIPA and to obtain liability insurance coverage through the California State Association of Counties Excess Insurance Authority beginning July 1, 2015 and thereafter. There can be no assurance such alternate coverage will be on the same or similar terms to the coverage that is provided by SANDPIPA. See Appendix B under the caption “PARTICULAR COVENANTS—Insurance” for a description of the insurance coverages required by the Indenture.

The City maintains workers’ compensation insurance coverage through the California State Association of Counties Excess Insurance Authority, a joint exercise of powers authority. The City carries a self-insured retention of \$500,000 for workers’ compensation and is insured for \$5,000,000 for employer’s liability and statutory workers’ compensation coverage. Claims have not exceeded the City’s insurance coverage in any of the last three years.

The City purchases risk, replacement cost value property insurance coverage through the Public Entity Property Insurance Program, issued through Alliant Insurance Services. The City is one of 12 cities insured by a joint policy with a shared limit of \$1,000,000,000. The City has a deductible of \$10,000 per loss. All facilities and equipment at the City’s wastewater treatment plant (as described under the caption “THE

WASTEWATER SYSTEM—General”) are insured under the City’s property insurance coverage, as are all City-owned pump stations. The San Elijo Ocean Outfall and the associated 14 mile land pipeline are also insured for \$11,000,000. Except to the extent included as part of the wastewater treatment plant or the San Elijo Ocean Outfall and the land pipeline, wastewater pipelines are not covered by property insurance. See the caption “THE WASTEWATER SYSTEM—General.” The City does not carry earthquake or pollution coverage.

In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance, the Net Proceeds thereof, if any, will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City will begin reconstruction, repair or replacement promptly after receipt of such Net Proceeds, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same will be completed and the Wastewater System will be free and clear of all claims and liens. The City has covenanted to reconstruct, repair or replace the damaged or destroyed portions of the Wastewater System promptly from Net Proceeds if a failure to reconstruct, repair or replace such portions would impair or adversely affect the ability of the City to pay the 2015 Bonds. See the captions “CERTAIN RISKS TO BONDHOLDERS—Wastewater System Expenses” and “CERTAIN RISKS TO BONDHOLDERS—Natural Disasters.”

If all or any part of the Wastewater System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied either to additions, betterments, extensions or improvements to the Wastewater System or, if the City elects not to apply such Net Proceeds to such capital items or if such Net Proceeds are not fully expended for such purposes, such Net Proceeds not required by the City for such purposes will be deposited in the Wastewater Revenue Fund.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds:

<i>Sources</i> ⁽¹⁾ :	<u>2015A Bonds</u>	<u>2015B Bonds</u>	<u>Total</u>
Principal Amount	\$14,645,000	\$5,060,000	\$19,705,000
Plus Original Issue Premium	2,412,455	0	2,412,455
Less Original Issue Discount	0	(54,965)	(54,965)
Additional Moneys ⁽²⁾	<u>2,029,257</u>	<u>2,390,922</u>	<u>4,420,179</u>
Total Sources	<u>\$19,086,712</u>	<u>\$7,395,957</u>	<u>\$26,482,669</u>
<i>Uses</i> ⁽¹⁾ :			
Refunding of 2004A Certificates	\$18,933,292	\$ 0	\$18,933,292
Refunding of 2004B Certificates	0	7,345,827	7,345,827
Underwriter’s Discount	68,724	23,745	92,468
Costs of Issuance ⁽³⁾	<u>84,696</u>	<u>26,385</u>	<u>111,082</u>
Total Uses	<u>\$19,086,712</u>	<u>\$7,395,957</u>	<u>\$26,482,669</u>

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

(2) Reflects moneys held in funds and accounts established in connection with the 2004 Certificates.

(3) Includes certain legal, rating agency, printing and other financing-related costs.

THE CITY

The City is located approximately 30 miles northeast of San Diego, California. The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. The City is governed by a five-member City Council. The Mayor is directly elected at large. Since 2014, the City

has been divided into four districts, which are used for all regular elections of Council members. For further information concerning the City, see Appendices A and F attached hereto.

THE WASTEWATER SYSTEM

General

The City treats wastewater for a service area of approximately 34 square miles that includes approximately 90% of the geographic area of the City and one small subdivision located outside of City limits. A small number of customers within City limits receive wastewater service from Vallecitos Water District. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 379 miles of sewer pipelines. The Hale Avenue Resource Recovery Facility (the "HARRF") is the City's principal wastewater treatment facility. The HARRF is a standard activated sludge treatment plant. Treatment consists of physical, biological, and chemical methods, which include screening, sedimentation, chemical precipitation, and biological processes. The HARRF's rated capacity is 18 million gallons per day ("MGD"). 12.7 MGD of that capacity is owned by the City and 5.0 MGD with an option for an additional 0.3 MGD of the total capacity is currently owned by the City of San Diego and serves the Rancho Bernardo community south of the City. See the caption "—Sewage Disposal Agreement."

The City's average daily flow was approximately 9.4 MGD in Fiscal Year 2014 and Rancho Bernardo contributed approximately another 2.5 MGD, for a total HARRF average daily flow of approximately 11.9 MGD in Fiscal Year 2014. Peak wet weather records indicate that the maximum daily throughput was 33.1 MGD.

Untreated wastewater is conveyed to the HARRF from both the Wastewater System and from the City of San Diego's Pump Station 77 in Rancho Bernardo. The City's wastewater flows enter the plant by gravity through three primary interceptors measuring 18, 27, and 42 inches in diameter. Wastewater from Rancho Bernardo is pumped to the HARRF for treatment through approximately 5 miles of 24 inch force main. The Wastewater System consists of approximately 379 miles of pipelines and 14 pumping stations.

Wastewater is treated in several stages. In the pre-treatment stage, raw wastewater is routed through a screening process, which removes large inorganic material, and a grit removal process, which removes small inorganic material. Such material is washed, disinfected and disposed of in landfills. After pre-treatment, the influent enters the primary clarifiers where gravity is used to settle solids to produce primary effluent. The solids are pumped to the primary digesters where they are broken down by anaerobic organisms. The primary effluent then enters the secondary treatment stage. The secondary system consists of conventional activated sludge aeration and clarification. Primary effluent is oxidized and consumed by a cultivated aerobic bio-mass and forms "mixed liquor." The mixed liquor (liquid in the aeration tanks) flows into the secondary clarifiers where gravity is used to separate the water (secondary effluent) from the biosolids. Secondary effluent is then pumped through the outfall described in the following paragraph for ultimate disposal. Excess secondary biosolids are pumped to the digesters, where they are mixed with primary sludge and treated for a minimum of 15 days. The volatile (organic content) mass of the combined biosolids are reduced to a stable state and transferred to the centrifuges for dewatering. The concentrated biosolids are disposed of via land application offsite and the water is returned to the HARRF. A portion of secondary effluent is sent to the tertiary treatment process where filters further remove remaining particles. Flow is then disinfected with chlorine application or ultraviolet light to produce recycled water that meets the standards set forth in Chapter 3 of Division 4 of Title 22 of the California Code of Regulations ("Title 22 Recycled Water"). See the caption "—Recycled Water System."

The HARRF's effluent is discharged to the Pacific Ocean via a 14 mile long land pipeline that connects to the San Elijo Ocean Outfall, an 8,000 foot ocean pipeline near the San Elijo Lagoon in north San Diego County. The effluent exits the outfall pipeline approximately 1.5 miles offshore through diffuser ports 110 feet deep in the Pacific Ocean. The San Elijo Joint Powers Authority owns and operates the San Elijo

Ocean Outfall and the San Elijo Pollution Control Facility. The City leases 79% of the estimated 23.25 MGD of ocean outfall capacity from the San Elijo Joint Powers Authority pursuant to a lease that continues indefinitely unless terminated by either party. A pressure regulating station is located at the lower end of the Escondido Land Outfall to control flow so that the total flow does not cause the pressure to exceed the pressure limitation of the reinforced concrete pipe portion of the San Elijo Ocean Outfall. The City sends its dewatered solids to Yuma, Arizona for use as a soil amendment.

The HARRF was constructed in 1959 with an original capacity of 1.0 MGD. Major expansions occurred in 1965 (to 3.0 MGD), 1973 (to 11.0 MGD), 1981 (to 16.5 MGD), 1989 (to 17.5 MGD), 1998 and 2000, when tertiary treatment processes (at an average capacity of 3 to 4 MGD) were added and the HARRF's secondary treatment capacity was expanded to 18 MGD.

The Wastewater System currently has approximately 54,764 connections, of which approximately 28,182 are single family residences, approximately 24,135 are multifamily residential units, approximately 2,440 are business accounts and approximately 7 are agricultural accounts. The Wastewater System serves a population of approximately 121,000 people.

Recycled Water System

The San Elijo Joint Powers Authority does not expect to be able to increase the capacity of the San Elijo Ocean Outfall or to construct an additional outfall in the foreseeable future because of the significant costs and environmental constraints placed upon ocean outfall pipelines. For this reason, the City anticipates that it will need to produce increasing amounts of Title 22 Recycled Water through the wastewater treatment process described under the caption “—General” in order to accommodate future growth within the Wastewater System's service area.

In 2004, distribution of recycled water began and currently up to approximately 6.4 MGD is provided to the recycled water users. The HARRF's recycled water project can currently distribute up to 9.0 MGD of recycled water from the HARRF to various City landscape irrigation customers including golf courses, school fields, City parks and green belts. In Fiscal Year 2014, the HARRF served 3,462 acre feet of recycled water to 23 users. Of the HARRF's 18 MGD capacity, up to 9.0 MGD is devoted to recycled water. Recycled water deliveries, which began in Fiscal Year 2007, offset higher cost purchases of imported potable water and represent an additional reliable source of local water supply. Improvements to the HARRF since its inception include upgrades that allow manufacture of “tertiary treated water” for unrestricted irrigation use, 18 miles of new distribution system pipelines and the construction of a two million gallon reservoir.

The recycled water system includes or will include the following components, among others:

- HARRF Influent Pump Station – The influent pump station, which is located at a lower elevation than the rest of the HARRF, pumps wastewater flows entering the plant to the plant head works at the highest elevation of the plant.
- Recycled Water Main Easterly Extension – This project consists of a 24” recycled water main along Escondido Creek between the crossings of Broadway and Citrus Avenue. This project is presently under construction and represents an expansion of the recycled water system to serve additional large agricultural customers. Construction is expected to be completed in spring 2016. This project is being financed from proceeds of the 2012 Installment Purchase Agreement. There can be no assurance that this project will be completed as currently contemplated.
- Recycled Water Main Easterly Tank and Pump Station – This project consists of a storage tank and pump station for distribution of recycled water to customers. This project is presently under construction and will extend the Recycled Water Main Easterly Extension to serve additional large agricultural customers. Construction is expected to be completed in spring 2016. This project is being financed from

proceeds of the 2012 Installment Purchase Agreement. There can be no assurance that this project will be completed as currently contemplated.

See the caption “—Projected Wastewater System Capital Improvements” for a discussion of additional expected capital improvements to the recycled water system.

Sewage Disposal Agreement

As discussed under the caption “—General,” 5.0 MGD (with an option for an additional 0.3 MGD) of the total capacity of the HARRF is currently owned by the City of San Diego and serves the Rancho Bernardo community south of the City. The City does not bill Wastewater System users located in the City of San Diego directly. Pursuant to the terms of a Sewage Disposal Agreement dated April 12, 1972, by and between the City and the City of San Diego (as amended, the “Sewage Disposal Agreement”), the City of San Diego is obligated to pay the City in each Fiscal Year an amount equal to the City of San Diego’s pro rata share (based on wastewater flows) of the total Operation and Maintenance Costs and certain capital costs of those Wastewater System facilities utilized by the City of San Diego. Prior to each Fiscal Year the City is required to estimate and notify the City of San Diego of its share of such Operation and Maintenance Costs and capital costs and the City of San Diego is obligated to pay such amounts in quarterly installments, billed in arrears. The first quarterly installment each Fiscal Year is adjusted either upward or downward to reflect the actual expenses and flows for the previous Fiscal Year. The City treats the moneys received from the City of San Diego as Revenues pledged to payment of the 2015 Bonds. See the caption “FINANCIAL INFORMATION OF THE CITY—Historic Operating Results and Debt Service Coverage.”

In Fiscal Year 2014, the last year for which the City’s full annual billing of the City of San Diego has been received, the City received a total of \$2,301,474 from the City of San Diego, and for Fiscal Year 2014, the latest year for which such information is available, the City budgeted the City of San Diego’s share of Operation and Maintenance Costs to be \$1,800,000. In the event that service to the City of San Diego is interrupted, the City of San Diego may discontinue its payments for the period of such interruption. The Sewage Disposal Agreement expires in 2023 and may be extended for additional five year terms at the City of San Diego’s option. There can be no assurance that the term of the Sewage Disposal Agreement will be extended after 2023 or that any such extension will include similar provisions, and the likely impact of such an extension on Net Revenues is uncertain at this time.

Management

The key personnel responsible for management of the Wastewater System include the City Manager, the Director of Administrative Services, the Director of Utilities and the Deputy Director of Utilities, Construction and Engineering. The City Attorney provides legal services to the City and the Wastewater System.

Clay Phillips is the City Manager. Mr. Phillips began his career with the City of Santa Ana from 1980 to 1983, as an accountant. Mr. Phillips also served as Deputy Finance Officer for the City of Irvine from 1983 to 1986. Mr. Phillips continued his career by accepting the Director of Finance position with the City in January of 1986. In 1993, Mr. Phillips was promoted to Director of Financial and Administrative Services. In 1997, Mr. Phillips was promoted to Deputy City Manager. On July 3, 2003, Mr. Phillips accepted his present position as City Manager for the City. Mr. Phillips graduated from Loma Linda University with a Bachelor of Science in Business Administration. Mr. Phillips has a Master of Business Administration from Pepperdine University.

Jeffrey R. Epp is the City Attorney. Mr. Epp has been with the City since 1985. Prior to that time, Mr. Epp served as a prosecutor for the City Attorney’s Office of Cheyenne, Wyoming. Mr. Epp obtained a Bachelor’s degree in Political Science and a Juris Doctorate degree from the University of Wyoming where he was also the Senior Editor of the Land and Water Law Review of the University of Wyoming School of Law.

Mr. Epp is a member of the International Municipal Lawyers Association, and both the North County and San Diego Bar Association. He has served as the President of the San Diego/Imperial County City Attorneys Association, the League of California Cities Committee on Transportation, Communications and Public Works, on the League's Legal Advocacy Committee and has been a member of the Executive Committee of the Public Law Section of the California State Bar.

Sheryl Bennett is the Director of Administrative Services for the City. Ms. Bennett has been with the City since 1999. She has served in several management positions in the City's Human Resources Department, including Personnel Manager and Director. Ms. Bennett was appointed Director of Administrative Services in January 2014, with responsibility for the City's Human Resources and Finance Departments. Ms. Bennett graduated from San Diego State University with a Bachelor of Science degree in Applied Arts and Sciences/Criminal Justice Administration. Ms. Bennett also has a Master of Business Administration from National University. Ms. Bennett is a member of the Government Finance Officers Association and the California Society of Municipal Finance Officers.

Christopher W. McKinney is the Director of Utilities for the City of Escondido. Mr. McKinney has served in that capacity since 2011. Mr. McKinney served as Deputy Director of Wastewater Treatment and Disposal in the Public Utilities Department of the City of San Diego beginning in 2009. He held the position of Asset Management Coordinator of the Metropolitan Wastewater Department of the City of San Diego from 2007 to 2009. Mr. McKinney started his career with the City of San Diego as an electrical engineer in 2002. Mr. McKinney holds Bachelor of Science and Master of Engineering degrees in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology (1995), and a Candidate in Philosophy degree in Electrical and Computer Engineering from the University of California San Diego (2002). Mr. McKinney is a Registered Professional Electrical Engineer in California.

Craig Whittemore is the Deputy Director of Utilities, Construction and Engineering for the City. Mr. Whittemore has served in that capacity since 2008. Mr. Whittemore was with the City of San Diego Metropolitan Wastewater Department from 1995 to 2008, leaving as a Senior Civil Engineer. Mr. Whittemore was Vice-President of Kamwill Surveyors, Inc. in California for seven years. He also has served in an engineering capacity for the City of San Dimas, California and the City of West Covina, California. Mr. Whittemore received a Bachelor's Degree in Civil Engineering from California State Polytechnic University, Pomona in 1977. Mr. Whittemore is a Registered Professional Civil Engineer in California and Arizona.

Employees and Employee Benefits

General. A total of 75 Full-Time Equivalent ("FTE") Utility Division employees operate and maintain the Wastewater System. Generally, these employees are represented in collective bargaining by the Maintenance and Operations Unit, Teamsters Local 911 (the "Union"), which operates pursuant to a collective bargaining agreement that extends through June 30, 2015. Certain management, supervisory and professional employees are unrepresented. The Utility Division has never experienced a strike, slowdown or work stoppage.

Pension Benefits. *This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.*

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based

upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

CalPERS Plan Summary. The City contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan, on behalf of 75 Wastewater System FTE employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The City currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the City's unfunded actuarial liability. For Fiscal Year 2014, the City's CalPERS contribution to its Miscellaneous Plan for the Wastewater System was \$1,310,886, which was equal to the annual required contribution (the "ARC") described below. For Fiscal Year 2015, the City's CalPERS contribution for the Wastewater System is expected to be \$1,510,549, assuming budgeted salaries and a contribution rate of 26.918% of annual covered payroll, which is equal to the ARC. The contribution rate for Fiscal Year 2016 has been established at 28.820% of annual covered payroll.

Members in the first tier of the City's Miscellaneous Plan (3% at 60 formula) are required to contribute 8% of their annual covered salary under the CalPERS plan. Prior to June 26, 2011, the City paid 7/8ths of the contributions required of Wastewater System employees on their behalf and for their account. Since June 26, 2011, the City no longer pays any portion of the contributions required of Wastewater System employees who are members of the Union on their behalf; such employees are required to make 100% of their required 8% employee member contribution to the CalPERS plan.

The City previously negotiated a second tier retirement benefit plan (2% at 60 formula) with the Union effective December 23, 2012. Second tier participants are required to contribute 7% of their annual covered salary under the CalPERS plan. The City does not pay any portion of such contributions; such employees are required to make 100% of their required 7% employee member contribution to the CalPERS plan.

Employees hired on or after January 1, 2013 who were not already a member of a pension system are subject to the California Public Employees' Pension Reform Act of 2013 ("AB 340"), which was signed by the California Governor on September 12, 2012. AB 340 established a third pension tier (2% at 62 formula) with a maximum benefit formula of 2.5% at age 67. Benefits for the third tier are calculated on the highest average annual compensation over a consecutive 36 month period. Third tier participants are required to contribute 6.25% of their annual covered salary under the CalPERS plan. The City does not pay any portion of such contributions. See the caption "*—AB 340*" below.

The City had an unfunded accrued liability of \$97,311,036 for its Miscellaneous Plan as of June 30, 2013, based on an actuarial value of assets of \$219,521,228 as set forth in the most recent actuarial report prepared by CalPERS, and an estimated unfunded accrued liability of \$99,455,018 for the Miscellaneous Plan for Fiscal Year 2014. CalPERS does not prepare separate actuarial reports for the Wastewater System's share of the unfunded liability. However, if the unfunded liability were spread based on the ratio of FTEs of the Wastewater System to the FTEs that participate in the City's Miscellaneous Plan as a whole, approximately 14.8% of the estimated Fiscal Year 2015 unfunded liability would be attributable to the Wastewater System.

Under Government Accounting Standards Board Statement No. 27, an employer reports an annual pension cost equal to the ARC plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation and may be positive or negative. The ARC for Fiscal Year 2014 was determined by an

actuarial valuation of the plan as of June 30, 2012 and the ARC for Fiscal Year 2015 has been determined by an actuarial valuation of the plan as of June 30, 2013.

The following table summarizes the City's annual required contributions for its Miscellaneous Plan (including Wastewater System employees) for Fiscal Years 2010 through 2014:

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>City-Funded Employee Contribution</i>	<i>Employee Contribution</i>	<i>Annual Pension Cost</i>	<i>Percentage of Annual Pension Cost Contributed</i>	<i>Net Pension Obligation</i>
2010	\$6,181,753	\$2,307,745	\$ 339,802	\$6,181,753	100%	\$0
2011	6,265,276	2,170,405	322,381	6,265,276	100	0
2012	6,821,337	309,255	2,091,783	6,821,337	100	0
2013	7,321,546	15,452	2,438,480	7,321,546	100	0
2014	8,144,874	-	2,555,076	8,144,874	100	0

The following table sets forth the schedule of funding for the City's plan as a whole, including the Wastewater System, as of June 30, 2013. The employer contribution rate for Fiscal Year 2015 is 26.918%.

<i>Valuation Date</i>	<i>Entry Age Normal Accrued Liability</i>	<i>Actuarial Value of Assets</i>	<i>Unfunded Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Funded Ratio⁽¹⁾</i>	<i>Annual Covered Payroll</i>
06/30/09	\$263,284,777	\$199,668,046	\$63,616,731	\$145,530,960	55.3%	\$36,734,986
06/30/10	273,248,044	211,856,211	61,391,833	166,203,118	60.8	33,837,511
06/30/11	289,371,286	224,366,487	65,004,799	199,803,578	69.0	32,582,511
06/30/12	301,925,404	235,998,321	65,927,083	197,104,309	65.3	31,403,451
06/30/13	316,832,264	219,521,228 ⁽²⁾	97,311,036	219,521,228	69.3	31,961,445

⁽¹⁾ Based on the market value of assets.

⁽²⁾ Beginning with the 6/30/2013 actuarial valuation, the actuarial value of assets equals the market value of assets.

Source: CalPERS Actuarial Report Dated October 2014.

CalPERS reported significant investment losses in 2009. CalPERS earnings reports for Fiscal Years 2010, 2011, 2012, 2013 and 2014 reported an investment gain of 13.0%, 21.7%, 1%, 12.5% and 18.4%, respectively. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City. The CalPERS pension trust pays all retiree benefit payments associated with the City's Miscellaneous Plan.

CalPERS Plan Actuarial Methods. The staff actuaries at CalPERS annually prepare an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered (thus, the actuarial valuation delivered to the City in October 2014 covered the City's Fiscal Year ended June 30, 2013). The actuarial valuations express the City's required contribution rates in percentages of covered payroll, which percentages the City must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City's contribution rate derived from the actuarial valuation as of June 30, 2012, which was delivered in October 2013, affects the City's Fiscal Year 2015 required contribution rate). CalPERS rules require the City to implement the actuary's recommended rates. CalPERS provides a lump sum payment option that the City may opt to pay in July of each year, rather than having payment transmitted as a percentage of each reported biweekly payroll.

In calculating the annual actuarially recommended contribution rates, the CalPERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that CalPERS will fund under the

CalPERS plans, which includes two components, the normal cost and the unfunded actuarial accrued liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that CalPERS will fund under the CalPERS plans that are attributed to the current year, and the actuarial accrued liability represents the actuarial present value of benefits that CalPERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between actuarial value of assets on deposit at CalPERS and the present value of the benefits that CalPERS will pay under the CalPERS plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL may be considered an estimate of the unfunded actuarial present value of the benefits that CalPERS will fund under the CalPERS plans to retirees and active employees upon their retirement and not as a fixed expression of the liability that the City owes to CalPERS under its CalPERS plans.

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return, currently 7.5%). As described below, these policies and actuarial assumptions have changed significantly in recent years and are expected to change or be modified further by CalPERS in the future. The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. Certain significant recent changes in assumptions include the following:

1. On April 17, 2013, the CalPERS Board approved a plan: (i) to replace the current 15 year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30 year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS' Chief Actuary has stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers such as the City about future contribution rates. These changes are expected to accelerate the repayment of unfunded liabilities (including CalPERS' fiscal year 2009 market losses described below) of the City's Miscellaneous Plan in the near term; the exact magnitude of the potential contribution rate increases is not known at this time, but may be significant. These changes will be reflected beginning with the June 30, 2014 actuarial valuation affecting contribution rates for Fiscal Year 2016 and thereafter. As a preliminary estimate, the City has currently budgeted for increases in its annual pension contributions for all City plans (includes safety plans applicable to the City's police and fire employees) of approximately \$1,000,000 per year.

2. On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial assumptions used to determine employer contribution rates. This reduced the assumed investment return from 7.75% to 7.5%, reduced the long-term payroll growth assumption from 3.25% to 3.0%, and adjusted the inflation component of individual salary scales from 3.25% to a merit scale varying by duration of employment, an assumed annual inflation component of 2.75% and an annual production growth of 0.25%. Although the full impact of such changes is not yet clear, CalPERS has estimated that they could result in net increases in future contribution levels of approximately 1% to 2%; however, the reduction in the inflation assumption could partially mitigate increases, if any, in the City's required annual contributions resulting from the reduction in the assumed investment rate of return, as described above.

In addition, in February 2010, the CalPERS Board adopted a resolution requiring additional contributions for any plan or pool if the cash flows hamper adequate funding progress by preventing the expected funded status on a market value of assets basis of the plan to either:

- Increase by at least 15% by June 30, 2043; or
- Reach a level of 75% funded by June 30, 2043.

Such contributions have been factored into the City's contribution rates set by CalPERS.

Changes in Pension Accounting Standards. Reporting obligations under GASB Statement No. 68 ("GASB 68") will commence with financial statements for Fiscal Year 2015. Under GASB 68, there are new standards for measuring and recognizing pension liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute such present value to periods of employee service.

AB 340. On September 12, 2012, the California Governor signed AB 340, which implements pension reform in California. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate for such retirement systems; (ii) prohibits employers from paying employer paid member contributions to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non safety benefit formula of 2.5% at age 67; (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36 month period; and (v) caps pensionable income at \$110,100 (\$132,120 for employees not enrolled in Social Security) subject to Consumer Price Index increases.

Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit. If AB 340 is implemented fully, CalPERS estimates savings for local agency plans of approximately \$1.653 billion to \$2.355 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the City have not been quantified.

Provisions in AB 340 will not likely have a material effect on City's contributions in the short term. However, additional employee contributions, limits on pensionable compensation and higher retirement ages for new members will reduce the City's UAAL and potentially reduce City contribution levels in the long term.

Change in Pensionable Compensation. On August 21, 2014, the CalPERS Board approved changes to clarify the types of compensation upon which pension benefits are based, primarily for employees hired after January 1, 2013. Under the changes, the CalPERS Board identified several dozen specific types of compensation which will count toward pension benefit calculations, including temporary and special assignment payments and certain categories of tasks, and identified types of compensation that will not be included in pension benefit calculations. Although the changes could result in an increase in the City's future CalPERS contributions, it is not currently possible to quantify the magnitude of such increases. The City believes that any such changes would be immaterial to its CalPERS contributions.

For additional information relating to the City's plan, see Note 12 to the City's audited financial statements for Fiscal Year 2014 attached hereto as Appendix A.

The City's projections of Operation and Maintenance Costs shown under the caption "FINANCIAL INFORMATION OF THE CITY—Projected Operating Results and Debt Service Coverage" do not assume further unusual increases in CalPERS contributions or other labor costs. However, no assurance can be provided that such expenses will not increase significantly in the future. The City does not currently provide post-retirement health benefits to any of its employees.

Investment of City Funds

The City invests its funds in accordance with the City's Investment Policy, most recently amended in June 2014. In accordance with Section 53600 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City's Investment

Policy sets forth the policies and procedures applicable to the investment of City funds and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and market risks. Eligible investments are generally limited to the Local Agency Investment Fund which is operated by the California State Treasurer, the San Diego County Investment Pool for local agencies, U.S. Treasury Bills, Notes and Bonds, obligations issued by United States Government agencies, FDIC insured or negotiable certificates of deposit, repurchase agreements, banker's acceptances and commercial paper rated A1/P1, as applicable, or better, and money market funds rated in the highest category by Moody's Investor's Service, Inc. ("Moody's") or Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") or administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's and S&P. Funds are invested in the following order of priority:

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

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

Outstanding Obligations

The City has incurred certain obligations that are payable from Net Revenues on a parity with the 2015 Bonds, as summarized in the below table.

<i>Obligation</i>	<i>Outstanding Principal Amount</i>	<i>Final Maturity</i>
2012 Installment Purchase Agreement	\$26,975,000	09/01/2041
Phase I HARRF State Loan	2,852,437	05/25/2021
Water Reclamation Project State Loan	6,584,788	04/01/2023
Tertiary Treatment Facility State Loan	4,940,847	04/01/2023
Blower State Loan	<u>869,336</u>	12/30/2024
Total	\$42,222,408	

The above table does not include information with respect to the 2004 Certificates, which are being refunded from proceeds of the 2015 Bonds. See the caption "REFUNDING PLAN."

Further information with respect to the above-described parity obligations is set forth below.

2012 Installment Purchase Agreement. The City and the Authority entered into the 2012 Installment Purchase Agreement to finance and refinance certain capital improvements to the Wastewater System. Under the 2012 Installment Purchase Agreement, which is currently outstanding in the aggregate principal amount of \$26,975,000 with a final maturity in 2041, the City is obligated to make the installment payments from Net Revenues of the Wastewater System. The obligation of the City to make such installment payments is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2015 Bonds.

HARRF/Tertiary Treatment Facility State Loans. In 1999, the City entered into a revolving loan contract with SWRCB to finance the construction of a tertiary treatment facility for the HARRF and a delivery system for recycled water. The project was financed in several phases, the "Phase I HARRF State Loan," the "Water Reclamation Project State Loan" and the "Tertiary Treatment Facility State Loan" (collectively, the "HARRF/Tertiary Treatment Facility State Loans").

The Phase I HARRF State Loan is currently outstanding in the aggregate principal amount of \$2,852,437 and is payable in annual installments of \$488,990, without interest. The final payment under the Phase I HARRF State Loan is payable on May 25, 2021. The obligation of the City to make payments on the Phase I HARRF State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2015 Bonds.

The Water Reclamation Project State Loan is currently outstanding in the aggregate principal amount of \$6,584,788 and is payable in annual installments of \$987,722, without interest. The final payment under the Water Reclamation Project State Loan is payable on April 1, 2023. The obligation of the City to make payments on the Water Reclamation Project State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2015 Bonds.

The Tertiary Treatment Facility State Loan is currently outstanding in the aggregate principal amount of \$4,940,847 and is payable in annual installments of \$741,130, without interest. The final payment under the Tertiary Treatment Facility State Loan is payable on April 1, 2023. The obligation of the City to make payments on the Tertiary Treatment Facility State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2015 Bonds.

Blower State Loan. In 1999, the City entered into a loan contract (the “Blower State Loan”) with the State SWRCB to finance the acquisition of a large automated aeration blower to replace certain capital facilities at the HARRF. The Blower State Loan is currently outstanding in the aggregate principal amount of \$869,336 and is payable in annual installments of \$98,817. The final payment under the Blower State Loan is payable on December 30, 2024. The obligation of the City to make payments on the Blower State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2015 Bonds.

See the caption “FINANCIAL INFORMATION OF THE CITY—Projected Operating Results and Debt Service Coverage.”

Environmental Compliance

The present discharge requirements for the HARRF’s treatment facilities are established by the Regional Water Quality Control Board, San Diego Region (the “Regional Board”), which administers and enforces all federal and State discharge requirements. The Regional Board administers regulations promulgated under the National Pollutant Discharge Elimination System (“NPDES”) by the United States Environmental Protection Agency and Division 7 of the California Water Code and regulations adopted thereunder. The City presently holds two discharge permits – Waste Discharge Order No. R9-2010-0032, which governs the discharge of reclaimed water, and Waste Discharge Order No. R9-2010-0086, which governs the discharge of secondary treated effluent. The City’s Waste Discharge Orders were adopted by the Regional Board on July 14, 2010 and September 8, 2010, respectively. Waste Discharge Order No. R9-2010-0032 has no expiration date and Waste Discharge Order No. R9-2010-0086 expires on September 8, 2015. The City expects to apply for a renewal of Waste Discharge Order No. R9-2010-0086 prior to the expiration thereof. If such application is pending on September 8, 2015, the City will continue to operate under the terms of the current permit until the permit is renewed. However, there can be no assurance that such permit will be renewed on similar terms. The City is operating in compliance with the terms of the Waste Discharge Orders.

The City previously held an NPDES permit to provide for a discharge of brine from the power generating facility described under the caption “—Largest Customers—*Power Generating Facility*” directly to the Escondido Land Outfall. The Regional Board has transferred responsibility for this permit to San Diego Gas & Electric (“SDGE”), which owns and operates the power generating facility. The permit allows SDGE to discharge to the City’s brine system and defines the water quality requirements for such discharge. The

brine flows to the HARRF, where it may be temporarily stored before discharge into the secondary effluent outfall. See the caption “—General.”

During heavy rains in 1995 and 1996, the capacity of the San Elijo Ocean Outfall was exceeded. To avoid damage to the pipeline, treated secondary effluent was pumped to Escondido Creek during the storms. The Regional Board issued a cease and desist order with respect to pumping to Escondido Creek. The cease and desist order permitted the City to continue operating the HARRF so long as a remedial plan was adopted by May 1998 and placed into operation by 2002. The City embarked on an ambitious plan for improvements to the HARRF, including adding a tertiary treatment stage to the plant process and upgrading the secondary treatment processes by, among other things, installing sophisticated electronic controls, all as described above. The Escondido Creek was improved to provide flood protection at the HARRF and capacity for discharge of recycled water.

The City was issued NPDES permit Number R9-2003-0394 for Intermittent Wet Weather Discharge to Escondido Creek on December 10, 2003, which allows the City to discharge stormwater overflows treated in the HARRF secondary treatment facility to Escondido Creek in accordance with the terms thereof. The Intermittent Wet Weather Discharge permit effectively canceled the cease and desist order described in the preceding paragraph. The Intermittent Wet Weather Discharge Permit expired in 2013 with the City’s application for renewal still pending. Because the Regional Board has not acted to approve or deny the application, the City is able to operate under the expired permit while the City’s application is pending. The City anticipates approval of a new permit in 2015 with requirements to define infrastructure improvements that will remove the need for the Intermittent Wet Weather Discharge Permit within ten years. However, there can be no assurance that such permit will be renewed on similar terms. Such infrastructure improvements will be part of the City’s larger recycled water and potable reuse program, which was conceptually approved by the City Council in 2014. See the caption “—Projected Wastewater System Capital Improvements.”

Historic Wastewater System Connections

The following table shows the growth in the number of connections to the Wastewater System and recycled water connections for Fiscal Years 2010 through 2014.

**TABLE 1
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historic Wastewater System Connections**

<i>Fiscal Year Ended June 30</i>	<i>Wastewater Connections</i>	<i>Recycled Water Connections</i>	<i>Increase/(Decrease) in Total Connections</i>
2010	53,848	13	0.95%
2011	54,252	16	0.76
2012	54,470	18	0.41
2013	54,597	22	0.24
2014	54,699	23	0.19

Source: City.

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Historic Wastewater System Daily Average Flow

The following table shows the Wastewater System daily average flow for Fiscal Years 2010 through 2014.

TABLE 2
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historic Wastewater System Daily Average Flow

<i>Fiscal Year Ended</i> <i>June 30</i>	<i>Daily Average</i> <i>Flow (MGD)</i>	<i>Increase/(Decrease)</i>
2010	12.7	(2.31)% ⁽¹⁾
2011	13.1	3.15
2012	12.7	3.05
2013	12.6	0.79
2014	12.1	(3.97) ⁽²⁾

⁽¹⁾ Decrease in Fiscal Year 2010 reflects impact of conservation measures and effect of economic recession.

⁽²⁾ Decrease in Fiscal Year 2014 reflects impact of conservation measures and effect of drought described under the caption “CERTAIN RISKS TO BONDHOLDERS—Drought Declaration.” Although daily average flow decreased in Fiscal Year 2014, wastewater service charge revenues increased as a result of rate increases adopted by the City Council. See the captions “—Historic Wastewater System Service Charge Revenues” and “—Wastewater System Rates and Charges.”

Source: City.

Historic Recycled Water Sales

The following table shows recycled water sales for Fiscal Years 2010 through 2014. The Wastewater System’s largest recycled water customer, accounting for an average of 86% of recycled water sales for the Fiscal Years shown, is Rincon Del Diablo Municipal Water District (“Rincon MWD”). See the caption “—Largest Customers—*Power Generating Facility*” for a description of the City’s recycled water sales agreement with Rincon MWD and SDGE. In Fiscal Years 2010 through 2014, the City sold an average of approximately 2,833 acre feet of recycled water per year to Rincon MWD and an average of approximately 444 acre feet of recycled water per year to other customers.

TABLE 3
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historic Recycled Water Sales

<i>Fiscal Year Ended</i> <i>June 30</i>	<i>Recycled Water</i> <i>Sales (Acre Feet)</i>	<i>Increase/(Decrease)</i>
2010	3,692	0.92%
2011	2,715	(26.46) ⁽¹⁾
2012	2,738	0.85
2013	3,783	38.17 ⁽²⁾
2014	3,462	(8.49) ⁽³⁾

⁽¹⁾ Decrease in recycled water sales in Fiscal Year 2011 reflects installation of chill water tank by SDGE, the largest ultimate user of recycled water sold by the City. See the caption “—Largest Customers—*Power Generating Facility*.”

⁽²⁾ Increase in recycled water sales in Fiscal Year 2013 reflects increases in sales to agricultural users in the eastern portion of the City’s service area. Such users purchased additional recycled water for irrigation purposes in response to drought conditions.

⁽³⁾ Decrease in recycled water sales in Fiscal Year 2014 reflects reduction in purchases by SDGE in February and March 2014 while certain SDGE facilities were undergoing maintenance. See the caption “—Largest Customers—*Power Generating Facility*.” Although recycled water sales decreased in Fiscal Year 2014, recycled water revenues increased as a result of rate increases adopted by the City Council. See the captions “—Historic Wastewater System Service Charge Revenues” and “—Wastewater System Rates and Charges.”

Source: City.

Historic Wastewater System Service Charge Revenues

The following table shows annual Wastewater System service charge revenues and recycled water sales revenues for Fiscal Years 2010 through 2014. As further described under the caption “—Largest Customers—*Power Generating Facility*,” approximately 76% of recycled water sales revenues for Fiscal Year 2014 was from sales to Rincon MWD, the Wastewater System’s largest recycled water customer.

**TABLE 4
CITY OF ESCONDIDO WASTEWATER SYSTEM
Historic Wastewater System Service Charge Revenues**

<i>Fiscal Year Ended June 30</i>	<i>Wastewater Service Charge Revenues</i>	<i>Recycled Water Revenues</i>	<i>Total</i>	<i>Increase/ (Decrease)⁽¹⁾</i>
2010	\$25,819,362	\$3,112,445	\$28,931,807	12.39%
2011	25,401,865	2,756,716	28,158,581	(2.67) ⁽²⁾
2012	23,570,829	2,860,022	26,430,851	(6.14) ⁽³⁾
2013	24,745,551	3,473,137	28,218,688	6.76 ⁽⁴⁾
2014	25,921,137	3,492,412	29,413,549	4.23 ⁽⁵⁾

- ⁽¹⁾ Reflects increase or decrease in total of Wastewater Service Charge Revenues and Recycled Water Revenues.
- ⁽²⁾ Fiscal Year 2011 decrease reflects installation of chill water tank by SDGE, the largest end user (through purchases from Rincon MWD) of recycled water sold by the City. See the caption “—Largest Customers—*Power Generating Facility*.”
- ⁽³⁾ Fiscal Year 2012 decrease reflects changes to the method of calculating wastewater charges. Based on recommendations in a wastewater rate study conducted in 2011, the City Council approved changes that more fairly distributed wastewater charges based on the cost of providing service to each class of customer. These changes led to a one-year decrease in revenue as customers were billed for the volume of sewer flow generated. See the caption “—Wastewater System Rates and Charges.”
- ⁽⁴⁾ The increase in recycled water sales in Fiscal Year 2013 reflects increases in sales to recycled water users in the eastern portion of the City’s service area (including agricultural customers, schools and churches).
- ⁽⁵⁾ Although wastewater daily average flow and recycled water sales decreased in Fiscal Year 2014, revenues increased as a result of rate increases adopted by the City Council. See the captions “—Historic Wastewater System Daily Average Flow,” “—Historic Recycled Water Sales” and “—Wastewater System Rates and Charges.”

Source: City.

Wastewater System service charge revenues and recycled water revenues are affected by a number of factors, including the number of connections and rates and charges and drought conditions. See the captions “—Historic Wastewater System Connections,” “—Wastewater System Rates and Charges” and “CERTAIN RISKS TO BONDHOLDERS—Drought Declaration.”

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Largest Customers

Wastewater System. The following table sets forth the ten largest customers of the Wastewater System, as determined by annual payments as of June 30, 2014, other than Rincon MWD, which uses recycled water supplied by the City as described under the caption “—Power Generating Facility.”

**TABLE 5
CITY OF ESCONDIDO WASTEWATER SYSTEM
Fiscal Year 2014 Top Ten Customers**

	<i>Customer</i>	<i>Revenues</i>	<i>Percentage of Total Wastewater System Revenues</i>
1.	Progress Management Co.	\$142,691	0.46%
2.	Rancho Escondido HOA	110,825	0.36
3.	Casa de Amigos	106,145	0.35
4.	Escondido Mobilepark West	101,505	0.33
5.	Felicita Villas HOA	93,915	0.31
6.	MG Morning View Apts LP	92,524	0.30
7.	Casa Escondida – S Houston	85,399	0.28
8.	Pepperwood Meadows HOA	78,509	0.26
9.	Irvine Company	77,460	0.25
10.	Imperial Escondido Mobile Estates	<u>76,162</u>	<u>0.25</u>
	Total	<u>\$965,135</u>	<u>3.15%</u>

Source: City.

These ten largest customers accounted for approximately 3.15% of total Wastewater System Revenues in Fiscal Year 2014.

Power Generating Facility. The City, Rincon MWD and SDGE, as assignee of Palomar Energy, LLC (“Palomar Energy”), a wholly-owned subsidiary of Sempra Energy Resources (“Sempra”), have entered into a Recycled Water Service Agreement, dated March 26, 2003 (as amended, the “Recycled Water Service Agreement”), pursuant to which the City agreed to construct certain facilities that enable the City to deliver Title 22 Recycled Water and to receive brine discharge from a 550 megawatt natural gas-fired combined-cycle power generating facility (the “PEP”) that was constructed by Palomar Energy in the City. Pursuant to the terms of the Recycled Water Service Agreement, the City delivers recycled water to Rincon MWD and Rincon MWD delivers the recycled water to the PEP, which is located within Rincon MWD’s water service area. The PEP, as part of the energy generation process, uses the recycled water as a coolant and discharges the resulting brine back to Rincon MWD, which delivers the brine to the City for ultimate discharge through the San Elijo Ocean Outfall. See the caption “—General.” Pursuant to the terms of the Recycled Water Service Agreement, SDGE is required to pay a base capacity charge, an additional capacity charge and a commodity charge on a take or pay basis. Such payments are paid monthly to Rincon MWD, which in turn pays the City pursuant to the Recycled Water Service Agreement. The Recycled Water Service Agreement has an initial term of 20 years from June 15, 2005.

As a result of SDGE’s payments under the Recycled Water Service Agreement, SDGE is the largest user of the Wastewater System, accounting for approximately \$2,439,837 in Revenues in Fiscal Year 2014, consisting of approximately \$1,123,696 in commodity charges, approximately \$637,071 in base capacity charges and approximately \$679,070 in additional capacity charges. Pursuant to the Recycled Water Services Agreement, these rates escalate in connection with rate increases for potable water. See the caption “—Wastewater System Rates and Charges—User Charges.”

A byproduct of the PEP is the generation of brine wastes generated from the cooling water treatment systems. Historically, this brine waste would be disposed of in the Wastewater System; however, in order to enhance the quality of the City's recycled water, the brine is collected and conveyed to the HARRF in a separate collection system that was constructed at the expense of Palomar Energy and owned and maintained by the City. This procedure allows the City to bypass the secondary and tertiary treatment processes and discharge the brine directly into the land outfall described under the caption "—General" for ultimate disposal to the Pacific Ocean. The separate brine collection system, which was constructed in conjunction with the PEP, consists of approximately 2,500 feet of 12-inch brine pipeline and storage areas for brine, secondary effluent and recycled water for distribution in the system, replacement of the flood control channel at the HARRF and construction of an emergency raw water connection pipeline.

SDGE may terminate the Recycled Water Service Agreement upon written notice to the City and Rincon MWD and the payment of an amount equal to the net present value of \$6,000,000 as of June 15, 2005, using a discount equal to the interest rate on debt of the City between June 15, 2005 and December 15, 2005. The City or Rincon MWD may terminate the Recycled Water Service Agreement with 30 days written notice to SDGE in the event of SDGE's nonpayment under or other breach of the Recycled Water Service Agreement.

Neither SDGE nor Sempra have participated in the preparation of this Official Statement, and neither SDGE nor Sempra is obligated to pay debt service on the 2015 Bonds or to provide any continuing disclosure with respect to the Recycled Water Service Agreement or otherwise. The Recycled Water Service Agreement is not pledged as security for the 2015 Bonds, and its enforcement is subject to the City's (and Rincon MWD's) performance of its obligations thereunder. Moreover, the Recycled Water Service Agreement may be amended by the parties at any time, and remedies thereunder may be limited by bankruptcy, equitable principles and general limitations on remedies against public agencies or public utilities. There can be no assurance that Revenues from the Recycled Water Service Agreement will equal the amounts projected in this Official Statement.

Sempra is a New York Stock Exchange listed company. Copies of Sempra's most recent filings are available at the Securities and Exchange Commission's website at www.sec.gov. Such information is not incorporated by reference herein.

See the caption "—Environmental Compliance" for a discussion of an application for an NPDES permit held by SDGE in connection with the PEP in accordance with regulations of the Regional Board.

Wastewater System Rates and Charges

The City has the power to establish rates and charges as needed to operate the Wastewater System. Rates and charges are established by the City Council and are not subject to review or approval by any other agency. The City principally relies on wastewater service rates and connection charges as revenue sources to operate the Wastewater System. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for certain constitutional provisions which may affect the City's ability to raise rates and charges.

User Charges. The City adopts rates and charges for the Wastewater System by City Council action on an annual basis. Under the current rate structure, residential users are typically billed a combination flat fee and service charge based on wastewater flow. Wastewater flow is calculated using indoor (non-landscaping) water usage, which is estimated at 80% of the average monthly winter (December to March) water usage per customer the previous year for single family and multi-family residences, and 100% of water usage for mobile homes. As discussed under the caption "CERTAIN RISKS TO BONDHOLDERS—Drought Declaration," lower winter water usage by residential users in the winter of 2014-15 in response to drought measures adopted by the City could result in reduced residential flows and, consequently, lower wastewater service charge revenues in Fiscal Year 2016 and thereafter.

For rate purposes, wastewater flow is capped at 10,000 gallons per month for single family residences and 8,000 gallons per month for multi-family residences and mobile homes. Commercial and industrial users are typically billed according to wastewater flow alone. Aside from charges to SDGE described above under the caption “—Largest Customers—*Power Generating Facility*,” the City’s Wastewater System rates and charges consist of a service charge (including a stormwater component) and an energy surcharge.

On February 4, 2015, after a notice, public hearing and protest process described under the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218,” the City Council adopted Resolution No. 2015-17R, which approved annual wastewater rate increases of approximately 6% effective March 1, 2015 and March 1, 2016. No changes were made to recycled water rates. Notwithstanding such approval, there can be no assurance that the City Council will not reduce such rate increases in the future. Any such reductions in rates would, however, be subject to the City Council’s obligations to set rates and charges in accordance with the rate covenant described under the caption “SECURITY FOR THE 2015 BONDS—Rate Covenant.”

The Wastewater System projected operating results set forth under the caption “FINANCIAL INFORMATION OF THE CITY—Projected Operating Results and Debt Service Coverage” are based on such approved wastewater rate increases and assume implementation of additional wastewater service charge increases of approximately 6% in Fiscal Years 2017 through 2019. Such projected operating results also assume decreases of approximately 30% in recycled water rates in Fiscal Year 2017 as new users are connected to the recycled water system, which is expected to increase recycled water sales by up to 3,500 acre feet per year by Fiscal Year 2020 and provide an incentive for agricultural users that now use potable water to purchase recycled water. The wastewater service charge increases and recycled water rates that are projected in Fiscal Years 2017 through 2019 have not been approved by the City Council and are subject to the notice, public hearing and protest process described in the Official Statement under the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” There can be no assurance that such rates will be adopted as currently projected.

The projected wastewater revenues for Fiscal Years 2016 through 2019 do not reflect lower residential winter water usage in the winter of 2014-15 and future years, if any, in response to such drought measures as may be adopted by the City, which could result in lower wastewater revenues from residential customers than currently projected. See the caption “CERTAIN RISKS TO BONDHOLDERS—Drought Declaration.”

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A schedule of current Wastewater System rates is set forth below.

<i>Customer Class</i>	<i>Unit</i>	<i>Fixed \$/mo</i>	<i>Other \$/unit</i>	<i>Wastewater Flow \$/ 1,000 gal****</i>	<i>Biochemical Oxygen Demand \$/lb</i>	<i>Total Suspended Solids \$/lb</i>
Single Family Residential*	per unit/month	\$18.78	\$ -	\$ 3.63	\$ -	\$ -
Multi-Family Dwelling*	per dwelling unit/month	18.78	-	3.01	-	-
Mobile Homes***	per mobile home/month	18.78	-	2.08	-	-
High Schools	per student/year	18.78	26.85	-	-	-
Elementary/Middle Schools	per student/year	18.78	17.90	-	-	-
Churches	per 100 seats/month	18.78	37.30	-	-	-
Car Wash/Soft Water Service**	per account/month	18.78	-	5.86	-	-
Hotel/Motel without dining**	per account/month	18.78	-	6.69	-	-
Hotel/Motel with dining**	per account/month	18.78	-	9.68	-	-
Repair Shop/Service Station**	per account/month	18.78	-	6.16	-	-
Commercial Laundry**	per account/month	18.78	-	6.94	-	-
Laundromats**	per account/month	18.78	-	6.11	-	-
Hospital**	per account/month	18.78	-	6.53	-	-
Brewery	per account/month	18.78	-	5.41	0.41	0.41
Grocery Store – Meat Dept.**	per account/month	18.78	-	10.53	-	-
Industrial**	per account/month	18.78	-	8.75	-	-
Restaurant**	per account/month	18.78	-	10.37	-	-
All Other Commercial**	per account/month	18.78	-	6.86	-	-
Discharges to Brine Line	per account/month	18.78	-	0.85	-	-

* Applied to 80% of monthly water usage.

** Applied to 90% of monthly water usage.

*** Applied to 100% of water usage.

****Capped at 10,000 gallons per month for single family residences and 8,000 gallons per month for multi-family residences and mobile homes. There is no cap for commercial customers.

Source: City.

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The current recycled water service charges and commodity charge adopted by the City Council are set forth below. Recycled water rates are currently set at 90% of the lowest potable water rate.

TABLE 6
CITY OF ESCONDIDO WASTEWATER SYSTEM
Monthly Recycled Water Service Charge and Commodity Charge

<u>Pipeline Diameter or Meter Size</u>	<u>Rate</u>
1"	\$ 44.85
1.5"	85.61
2"	134.50
3"	289.38
4"	517.59
6"	1,145.22

Recycled Water Commodity Charge: \$3.85 per 1,000 gallons

Connection Charges. A wastewater connection right must be purchased through the City by anyone who wishes to connect to the Wastewater System. The connection fee is currently \$7,500 for a single-family unit and multifamily unit with three or more bedrooms, \$5,625 for a multifamily unit with fewer than three bedrooms and mobile homes and \$3,750 for senior housing units. Connection charges for commercial and industrial users are based on average estimated flow as determined by the Director of Utilities.

In 1983, the City pre-sold 6,031 wastewater connection rights to finance capital improvements to the Wastewater System. 183.99 pre-sold wastewater connection rights are currently outstanding. Such rights can be redeemed for a connection at any time. If the holder of a pre-sold wastewater connection right does not wish to use it to connect to the Wastewater System, such right can be surrendered to the City, where it will be held until another party purchases such right. The current value of a wastewater connection right is \$21,872.

Connection fees generally are treated as Revenues, but the purchase of a connection or the exercise of connection rights may not result in the receipt of corresponding cash by the City when purchased or exercised. For example, if the owner of a pre-sold wastewater connection right exercises its right to connect to the Wastewater System, the City treats the value of the exercised right as a Revenue in the amount of \$21,872 per right, even though no current cash is received. If instead, a wastewater connection right is purchased, the City applies a portion of the purchase price equivalent to 2.916 new connections to buy back connection rights from owners who have offered them for resale, if any, at the price of \$21,872, and holds the balance for future expansion of the Wastewater System. These credits relieve a liability of the Wastewater System, but they do not result in a current expense, and have no impact on Operation and Maintenance Costs, in the applicable year. Footnotes to Tables 12 and 13 indicate the amount of net connection fees received, or estimated to be received, by the City after eliminating the non-cash portion of such fees, and indicate further the resultant impact on coverage of Debt Service by Net Revenues.

The City reports that as of January 2015, no connection rights were held by the City for resale. This number is a decrease from the number of connection rights held by the City in prior years. Revenues from connection fees in any given year reported in the financial statements and tables herein reflect the cash collected from paying customers, plus the value of rights used by holders at \$21,872 per connection right. In Fiscal Year 2014, the City recorded revenue of \$764,265 and connection rights holders exercised no rights.

Comparative Rates. The City’s average monthly residential wastewater service charge as of March 1, 2015 is set forth below, along with a comparison to nearby wastewater service providers as of January 1, 2015.

TABLE 7
CITY OF ESCONDIDO WASTEWATER SYSTEM
Monthly Residential Wastewater Service Charge Comparison

	<i>Monthly Charge</i>	<i>Volume Charge (per 10,000 gallons)</i>	<i>Total Charge (per 10,000 gallons)</i>
City of Del Mar	\$128.01 ⁽¹⁾	\$64.52	\$192.53 ⁽¹⁾
Valley Center Municipal Water District	81.08	0.00	81.08
Fallbrook Public Utility District	14.10	61.12	75.22
City of Oceanside	18.70	54.98	73.68
City of San Diego	30.66 ⁽¹⁾	38.50	69.16 ⁽¹⁾
City of Poway	16.68	41.80	58.48
City of Escondido	18.78	29.00	47.78
Otay Water District	14.38	25.15	39.53
Vallecitos Water District	37.45	0.00	37.45
Carlsbad Municipal Water District	26.03	0.00	26.03

⁽¹⁾ Wastewater service billed every two months. Reflects effective monthly rate.
Source: City.

Billing and Collection Procedures and Delinquencies

The City consolidates its billing procedures with charges for water, wastewater, recycled water and trash collection. Customers located within the City’s potable water service area are billed monthly. Customers located outside of the City’s potable water service area are billed bi-monthly. Bills are generated by computer monthly. A customer is given 19 days to pay the bill. A 10% late payment charge is assessed against any payment received on or after the nineteenth day following the billing date. Accounts that are over 45 days delinquent are subject to disconnection of wastewater service. After shutoff a customer has approximately one week to pay the delinquent bill. If not paid, the account is closed and a closing bill is mailed. The delinquent customer has 30 days to pay the closing bill. If not paid by the due date, the bill is transferred to the collection department. Small claims litigation is the ultimate remedy for closed accounts that fail to pay.

Presently, approximately 85% to 90% of all bills are paid within 19 days and almost all delinquencies are paid prior to the disconnection of service. Outstanding bills on closed accounts are forwarded to the Collections Officer for collection.

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Projected Wastewater System Connections

The following table shows the projected growth in the number of wastewater connections and recycled water connections for the current and next four Fiscal Years.

**TABLE 8
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Wastewater System Connections**

<i>Fiscal Year Ending June 30</i>	<i>Wastewater Connections</i>	<i>Recycled Water Connections</i>	<i>Increase/(Decrease) in Total Connections</i>
2015	54,757	23	0.11%
2016	54,833	23	0.14
2017	54,913	29	0.16
2018	54,993	31	0.15
2019	55,073	37	0.16

Source: City.

Projected Wastewater System Daily Average Flow

The following table shows the projected daily average Wastewater System flow for the current and next four Fiscal Years.

**TABLE 9
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Wastewater System Daily Average Flow**

<i>Fiscal Year Ending June 30</i>	<i>Daily Average Flow (MGD)</i>	<i>Increase/(Decrease)</i>
2015	12.1	0.00%
2016	12.1	0.00
2017	12.1	0.00
2018	12.1	0.00
2019	12.1	0.00

Source: City.

The projected wastewater flows for Fiscal Years 2016 through 2019 do not reflect lower residential winter water usage in the winter of 2014-15 or any future years, if any, in response to such drought measures as may be adopted by the City. See the caption “CERTAIN RISKS TO BONDHOLDERS—Drought Declaration.”

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Projected Recycled Water Sales

The following table shows projected recycled water sales for the current and next four Fiscal Years. Increases in recycled water production reflect projected increases in sales to agricultural users in the eastern portion of the City’s service area and the expansion of the City’s recycled water system as described under the caption “—Projected Wastewater System Capital Improvements.”

**TABLE 10
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Recycled Water Sales**

<i>Fiscal Year Ending June 30</i>	<i>Recycled Water Sales (Acre Feet)</i>	<i>Increase/(Decrease)</i>
2015	3,500	1.10%
2016	3,500	0.00
2017	4,445	27.00
2018	5,280	18.79
2019	5,880	11.36

Source: City.

Projected Wastewater System Service Charge Revenues

The following table shows projected annual Wastewater System service charge revenues and recycled water sales revenues for the current and next four Fiscal Years.

**TABLE 11
CITY OF ESCONDIDO WASTEWATER SYSTEM
Projected Wastewater System Service Charge Revenues**

<i>Fiscal Year Ending June 30</i>	<i>Wastewater Service Charge Revenues</i>	<i>Recycled Water Revenues</i>	<i>Total</i>	<i>Increase/ (Decrease)⁽¹⁾</i>
2015	\$27,453,685	\$3,222,649	\$30,676,334	4.29%
2016	29,119,956	3,214,310	32,334,266	5.40
2017	31,167,616	3,676,230	34,843,846	7.76
2018	33,060,724	4,387,460	37,448,184	7.47
2019	35,031,118	4,898,847	39,929,965	6.63

⁽¹⁾ Reflects projected increase in total of Wastewater Service Charge Revenues and Recycled Water Revenues.
Source: City.

The projected revenues set forth above reflect the wastewater service charge adjustments adopted by the City Council effective March 1, 2015 and March 1, 2016, projected rate increases in future Fiscal Years, and projected increases in connections and recycled water sales. See the captions “—Wastewater System Rates and Charges—User Charges,” “—Projected Wastewater System Connections” and “—Projected Recycled Water Sales.” Notwithstanding such approved wastewater service charge increases, there can be no assurance that the City Council will not reduce wastewater service charges in the future, subject to the rate covenant described under the caption “SECURITY FOR THE 2015 BONDS—Rate Covenant.”

Projected wastewater and recycled water rate increases are subject to the notice, hearing and protest provisions of Proposition 218. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” There can be no assurance that the City Council will adopt rate increases as projected herein. If such rate increases are not adopted as projected, Wastewater

System Revenues could differ materially from the amounts set forth herein, which could have a material effect on the City's ability to pay the Installment Payments.

The projected wastewater revenues for Fiscal Years 2016 through 2019 do not reflect lower residential winter water usage in the winter of 2014-15 or any future years, if any, in response to such drought measures as may be adopted by the City, which could result in lower wastewater revenues from residential customers than currently projected. See the caption "CERTAIN RISKS TO BONDHOLDERS—Drought Declaration."

Projected Wastewater System Capital Improvements

The City projects capital improvements of approximately \$65,000,000 over the current and next four Fiscal Years, including the Recycled Water Easterly Main Extension and Recycled Water Main Easterly Tank and Pump Station described under the caption "—Recycled Water System" in the approximate amount of \$20,100,000, the construction of additional main lines and other improvements to the recycled water system in two phases in the approximate amount of \$11,000,000, the construction of a microfiltration/reverse osmosis facility in the approximate amount of \$12,600,000, expansion of the treatment facilities at the HARRF in the approximate amount of \$16,100,000 and other miscellaneous capital improvements.

The City currently projects funding such capital improvements through a combination of grants, Revenues, proceeds of the 2012 Installment Purchase Agreement and reserves, as well as one or more additional loans from the SWRCB or other State agencies (collectively, the "Future State Loans") in the aggregate projected principal amount of approximately \$26,000,000. Projected debt service on the Future State Loans, and on additional State loans in the aggregate projected principal amount of approximately \$19,000,000 to finance additional capital improvements described in the below paragraph (which additional State loans have not yet been authorized by the City Council), is set forth in Table 13. Payments under the Future State Loans are expected to be payable from Net Revenues on a parity with the 2015 Bonds and payments under other Contracts. See the caption "FINANCIAL INFORMATION OF THE CITY—Projected Operating Results and Debt Service Coverage." There can be no assurance that the above-described capital improvements will be funded from the Future State Loans. Alternate funding sources for such capital improvements may be more costly than the Future State Loans.

Many of the above-described capital improvements comprise portions of a larger potable water reuse program that has been conceptually approved by the City Council. The City estimates that the total cost of such program, if fully constructed, would be approximately \$260,000,000 over 15 years, including the \$65,000,000 that is expected to be expended in the current and next four Fiscal Years. Such costs may be financed through a combination of debt (including additional State loans), grants, reserves and Revenues (which are dependent upon additional rate increases that have not yet been adopted). The timing, scope and financing sources for such capital program are presently uncertain and subject to change. Individual projects within the program are subject to City Council approval and there can be no assurance that any of such improvements will be constructed as currently contemplated.

Growth Management

Pursuant to the City's current land use policies and ordinances, the City regulates growth by denying building permits to developments that are: (i) inconsistent with the City's general plan; or (ii) located in areas that have critical infrastructure deficiencies. The City will issue building permits in areas with critical infrastructure deficiencies where the development provides facilities to upgrade existing deficiencies, does not adversely impact critical infrastructure and provides a proportionate share of neighborhood or citywide improvements. The City anticipates that growth and development in the City will continue to be regulated in the future. There can be no assurance that the City will not enact future growth control ordinances which increase limits on population growth in the City. See the caption "—Projected Wastewater System Connections" for projected increases in service connections in the current and next four Fiscal Years. The City has covenanted in the Indenture to fix and prescribe, at the commencement of each Fiscal Year, rates and

charges for the Wastewater Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service (including the Installment Payments) in such Fiscal Year. See the caption “SECURITY FOR THE 2015 BONDS—Rate Covenant.”

FINANCIAL INFORMATION OF THE CITY

Financial Statements

A copy of the most recent audited financial statements (the “Financial Statements”) of the City prepared by the City’s accountant, Lance, Soll & Lunghard, LLP, Brea, California (the “Auditor”) is included as Appendix A hereto. The Auditor’s letter concludes that the Financial Statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

Historic Operating Results and Debt Service Coverage

Table 12 below is a summary of operating results of the Wastewater System for Fiscal Years 2010 through 2014. The results have been derived from the Financial Statements and prior audited financial statements of the City but exclude certain non-cash items and include certain other adjustments. The table has not been reviewed or audited by the City’s Auditor.

The City accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the City (“GAAP”). In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See Appendix A. Except as otherwise noted, financial information derived from the City’s Financial Statements and audited financial statements for prior Fiscal Years reflects the application of GAAP.

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TABLE 12
CITY OF ESCONDIDO WASTEWATER SYSTEM
HISTORIC OPERATING RESULTS
For the Fiscal Year Ended June 30

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
REVENUES					
Service charges ⁽¹⁾	\$25,819,362	\$25,401,865	\$23,570,829	\$24,745,551	\$25,921,137
Recycled water revenues	3,112,445	2,756,716	2,860,022	3,473,137	3,492,412
Connection fees ⁽²⁾	1,110,157	303,458	665,874	626,102	764,266
Investment Income	736,197	607,718	704,469	447,530	430,783
Other ⁽³⁾	129,143	211,856	142,469	361,910	120,112
TOTAL REVENUES	<u>\$30,907,304</u>	<u>\$29,281,613</u>	<u>\$27,943,663</u>	<u>\$29,654,230</u>	<u>\$30,728,710</u>
OPERATION AND MAINTENANCE COSTS	\$17,266,280	\$17,013,993	\$16,465,969	\$17,402,987	\$20,202,469
NET REVENUES	\$13,641,024	\$12,267,620	\$11,477,694	\$12,251,243	\$10,526,241
DEBT SERVICE					
2004A Installment Purchase Agreement ⁽⁴⁾	\$ 2,020,791	\$ 2,022,841	\$ 2,021,179	\$ 2,019,666	\$ 2,021,841
2004B Installment Purchase Agreement ⁽⁴⁾	887,958	885,793	886,437	886,103	884,788
2012 Installment Purchase Agreement	-	-	-	1,309,848	1,436,931
Phase I HARRF State Loan	488,990	488,990	488,990	488,990	488,990
Water Reclamation Project State Loan	987,722	987,722	987,722	987,722	987,722
Tertiary Treatment Facility State Loan	741,130	741,130	741,130	741,130	741,130
Blower State Loan	98,817	98,817	98,817	98,817	98,817
TOTAL DEBT SERVICE	<u>\$ 5,225,408</u>	<u>\$ 5,225,293</u>	<u>\$ 5,224,275</u>	<u>\$ 6,532,276</u>	<u>\$ 6,660,219</u>
DEBT SERVICE COVERAGE⁽⁵⁾	2.61	2.35	2.20	1.88	1.58
NET REVENUES AVAILABLE FOR OTHER PURPOSES	\$ 8,415,616	\$ 7,042,327	\$ 6,253,419	\$ 5,718,967	\$ 3,866,022

⁽¹⁾ Includes payments from City of San Diego for its share of Operation and Maintenance Costs. See the caption “THE WASTEWATER SYSTEM—Sewage Disposal Agreement.”

⁽²⁾ See the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—*Connection Charges*” for a discussion of these Revenues; net cash received for the affected years for such connection fees was \$1,022,669, \$281,586, \$644,002, \$385,510 and \$764,266 for Fiscal Years 2010, 2011, 2012, 2013 and 2014, respectively.

⁽³⁾ Includes other miscellaneous revenues, including but not limited to rebates, refunds and incentive payments.

⁽⁴⁾ These obligations are being prepaid in full from proceeds of the 2015 Bonds. See the caption “REFUNDING PLAN.”

⁽⁵⁾ If coverage were adjusted to reflect only the cash received for connection fees, as described in Footnote 2, coverage would have been 2.59, 2.34, 2.19, 1.84 and 1.58 for Fiscal Years 2010, 2011, 2012, 2013 and 2014, respectively.

Source: City.

Projected Operating Results and Debt Service Coverage

The estimated projected operating results for the Wastewater System for the current and next four Fiscal Years are set forth in Table 13 below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City’s estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in part in the footnotes to the table set forth below are material in the development of the City’s financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

Recent Statewide drought conditions and the impact thereof are not reflected in the below projected operating results. The City continues to formulate its response to the drought, including by implementation of its water supply conservation plan, and cannot predict the effect of the drought on the Wastewater System’s

operations at this time. However, the City does not expect the drought to have a material adverse effect on the City’s ability to generate sufficient Net Revenues to pay principal of and interest on the 2015 Bonds. See the caption “CERTAIN RISKS TO BONDHOLDERS—Drought Declaration.”

TABLE 13
CITY OF ESCONDIDO WASTEWATER SYSTEM
PROJECTED OPERATING RESULTS
For the Fiscal Year Ending June 30

	<u>2015⁽¹⁾</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
REVENUES					
Service charges ⁽²⁾	\$ 27,453,685	\$ 29,119,956	\$ 31,167,616	\$ 33,060,724	\$ 35,031,118
Recycled water revenues ⁽²⁾	3,222,649	3,214,310	3,676,230	4,387,460	4,898,847
Connection fees ⁽³⁾	350,000	350,000	350,000	350,000	350,000
Investment Income ⁽⁴⁾	383,000	431,800	556,000	664,000	644,000
Other ⁽⁵⁾	<u>232,500</u>	<u>232,500</u>	<u>232,500</u>	<u>232,500</u>	<u>232,500</u>
TOTAL REVENUES	\$ 31,641,834	\$ 33,348,566	\$ 35,982,346	\$ 38,694,684	\$ 41,156,465
OPERATION AND MAINTENANCE COSTS⁽⁶⁾	\$ 21,842,440	\$ 23,392,752	\$ 25,706,765	\$ 27,488,590	\$ 28,531,008
NET REVENUES	\$ 9,799,394	\$ 9,955,814	\$ 10,275,581	\$ 11,206,094	\$ 12,625,457
DEBT SERVICE					
2004A Installment Purchase Agreement ⁽⁷⁾	\$ 2,020,038	\$ -	\$ -	\$ -	\$ -
2004B Installment Purchase Agreement ⁽⁷⁾	887,370	-	-	-	-
2012 Installment Purchase Agreement ⁽⁸⁾	1,439,081	1,440,381	1,440,806	1,440,281	1,438,781
2015 Bonds	-	2,133,732	2,138,272	2,130,450	2,128,389
Future State Loans ⁽⁹⁾	-	461,112	1,332,215	1,873,524	2,189,288
Phase I HARRF State Loan ⁽⁸⁾	488,990	488,990	488,990	488,990	488,990
Water Reclamation Project State Loan ⁽⁸⁾	987,722	987,722	987,722	987,722	987,722
Tertiary Treatment Facility State Loan ⁽⁸⁾	741,130	741,130	741,130	741,130	741,130
Blower State Loan ⁽⁸⁾	<u>98,817</u>	<u>98,817</u>	<u>98,817</u>	<u>98,817</u>	<u>98,817</u>
TOTAL DEBT SERVICE	\$ 6,663,148	\$ 6,351,884	\$ 7,227,952	\$ 7,760,914	\$ 8,073,117
DEBT SERVICE COVERAGE	1.47	1.57	1.42	1.44	1.56
NET REVENUES AVAILABLE FOR OTHER PURPOSES	\$ 3,136,246	\$ 3,603,930	\$ 3,047,629	\$ 3,445,180	\$ 4,552,340

(1) Reflects budgeted Fiscal Year 2015 amounts with certain adjustments.

(2) Reflects projected connections and daily average flow set forth under the captions “THE WASTEWATER SYSTEM—Projected Wastewater System Connections” and “THE WASTEWATER SYSTEM—Projected Wastewater System Daily Average Flow.” Also reflects adopted rate increases and projected rate increases described under the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—User Charges.” Such projected rate increases have not been approved by the City Council and are subject to the notice, public hearing and protest process described under the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” There can be no assurance that such rate increases will be adopted as currently projected. Does not reflect lower wastewater service revenues, if any, from residential customers as a result of the Drought Declaration, as described under the caption “CERTAIN RISKS TO BONDHOLDERS—Drought Declaration.”

(3) Projected to remain at Fiscal Year 2015 budgeted amount.

(4) Reflects earnings on Wastewater System reserves projected at rates ranging from 1.2% to 2.2%.

(5) Includes other miscellaneous revenues, including but not limited to rebates, refunds and incentive payments. Projected to remain at Fiscal Year 2015 budgeted amount.

(6) Projected to increase approximately 7% from Fiscal Year 2015 budgeted amount in Fiscal Year 2016, approximately 10% from Fiscal Year 2016 amount in Fiscal Year 2017, approximately 7% from Fiscal Year 2017 amount in Fiscal Year 2018 and approximately 4% per annum thereafter.

(7) These obligations are being prepaid in full from proceeds of the 2015 Bonds. See the caption “REFUNDING PLAN.”

(8) Reflects scheduled payments.

(9) Projected in the aggregate principal amount of \$45,000,000 at an all-in interest true interest cost of 1.50%. See the caption “THE WASTEWATER SYSTEM—Projected Wastewater System Capital Improvements.”

Source: City.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

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

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by or for the State or other entity of local government, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment, insurance and disability insurance funds. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from: (a) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (b) 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 over the subsequent two years.

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

The City is of the opinion that its charges for Wastewater Service do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The City has covenanted in the Indenture that, to the fullest extent permitted by law, it will fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service (including the 2015 Bonds) in such Fiscal Year. See the caption “SECURITY FOR THE 2015 BONDS—Rate Covenant.”

Proposition 218

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

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

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

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

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the State Supreme Court, it was generally believed that Article XIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal. 4th 205 (2006) (the “*Bighorn Case*”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The City has complied with the notice and public hearing requirements of Article XIID in determining whether to change Wastewater System rates and charges since at least 2000.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The City’s wastewater rates are described under the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges.” The City is studying the Capistrano Taxpayers Association ruling but does not currently expect the decision to affect its wastewater rate structure. The City believes that its current wastewater rates comply with the requirements of Proposition 218 and expects that any future wastewater rates will comply with Proposition 218’s procedural and substantive requirements to the extent applicable thereto.

Article XIIC. Article XIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above were applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn Case* that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the City does not believe that Article XIIC grants to the voters within the City the power to repeal or reduce rates and charges for the Wastewater Service in a manner which would be inconsistent with the contractual obligations of the City. However, there can be no assurance of the availability of particular remedies adequate to protect the Beneficial Owners of the 2015 Bonds. Remedies

available to Beneficial Owners of the 2015 Bonds in the event of a default by the City are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. So long as the 2015 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2015 Bonds and the rights and remedies of the 2015 Bond Owners will be exercised through the procedures of DTC.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the 2015 Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix C), will be similarly qualified.

Proposition 26

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

Future Initiatives

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

CERTAIN RISKS TO BONDHOLDERS

The following information should be considered by prospective investors in evaluating the 2015 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations may be relevant to making an investment decisions with respect to the 2015 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Limited Obligations

The obligation of the City to pay the 2015 Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues of the Wastewater System. The obligation of the City to pay the 2015 Bonds does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Accuracy of Assumptions

To estimate the revenues available to pay debt service on the 2015 Bonds, the City has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Wastewater System and the interest rate at which funds will be invested. The City believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to materialize, the Net Revenues available to pay debt service on the 2015 Bonds will, in all likelihood, be less than those projected herein. See the caption “FINANCIAL INFORMATION OF THE CITY—Projected Operating Results and Debt Service Coverage.” The City may choose, however, to maintain compliance with the rate covenant set forth in the Indenture in part by means of contributions from available reserves or resources. In such event, Net Revenues may generate amounts which are less than 1.15 times Debt Service in any given Fiscal Year. See the caption “SECURITY FOR THE 2015 BONDS—Rate Covenant.”

Wastewater System Demand

There can be no assurance that the demand for wastewater services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the rate covenant. The City’s largest Wastewater System customer, Rincon MWD, which sells recycled water purchased from the City to SDGE, accounted for approximately 9% of total Wastewater System Revenues and approximately 76% of recycled water sales revenues in Fiscal Year 2014. In the event that the Recycled Water Service Agreement pursuant to which SDGE purchases recycled water is terminated, recycled water deliveries would be significantly reduced. The City does not anticipate that SDGE will seek to terminate the Recycled Water Service Agreement in the foreseeable future.

Wastewater System Expenses

There can be no assurance that the City’s expenses will be consistent with the descriptions in this Official Statement. Wastewater System Operation and Maintenance Costs may vary with labor costs (including costs related to pension liabilities), treatment costs, regulatory compliance costs and other factors. Increases in expenses could require an increase in rates or charges in order to comply with the rate covenant.

Limited Recourse on Default

If the City defaults on its obligation to pay the principal of and interest on the 2015 Bonds, the Trustee has the right to declare the total unpaid principal of the 2015 Bonds, together with the accrued interest thereon to be immediately due and payable. However, in the event of a default and such acceleration there can be no assurance that the City will have sufficient funds to pay the accelerated amounts due on the 2015 Bonds from Net Revenues.

Rate-Setting Process under Proposition 218

Proposition 218, which added Articles XIII C and XIII D to the State Constitution, affects the City’s ability to maintain existing rates and impose rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority

protest or initiative, the City might thereafter be unable to generate Net Revenues in the amounts required by the Indenture to pay the 2015 Bonds. The City believes that the current wastewater rates approved by the City Council were effected under the public hearing and majority protest provisions of Proposition 218. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.”

Statutory and Regulatory Compliance

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

Claims against the Wastewater System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Wastewater System comprising Operation and Maintenance Costs or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency wastewater systems such as that operated by the City may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the City. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the City to generate Net Revenues sufficient to pay the 2015 Bonds.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, fire, earthquake, landslide, drought or flood, could have an adverse material impact on the economy within the City, its Wastewater Revenue Fund and the revenues available for the payment of the 2015 Bonds. Portions of the Wastewater System may be subject to unpredictable seismic activity. A safety report for parts of the City’s municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the Wastewater System. The City does not maintain earthquake insurance for the Wastewater System.

The occurrence of natural disasters in the area of the Wastewater System could result in substantial damage to the Wastewater System which, in turn, could substantially reduce revenue generated by the Wastewater System and affect the ability of the City to pay the 2015 Bonds. The City maintains liability insurance for the Wastewater System and property casualty insurance (for losses other than from seismic events) for certain portions of the Wastewater System, including the HARRF. See the caption “SECURITY FOR THE 2015 BONDS—Insurance; Reconstruction, Repair and Replacement.” However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

Furthermore, as described under the caption “SECURITY FOR THE 2015 BONDS—Insurance; Reconstruction, Repair and Replacement,” significant portions of the Wastewater System, including wastewater and recycled water pipelines, are not covered by property casualty insurance. Damage to such portions of the Wastewater System as a result of natural disasters would result in uninsured losses to the City.

Drought Declaration

On January 17, 2014, the State Governor declared a drought state of emergency (the “Declaration”) with immediate effect. The Declaration includes the following orders, among others: (a) local urban water suppliers, including the City, are encouraged to implement their local water shortage contingency plans (the City’s plan is discussed below); (b) local urban water suppliers, including the City, are encouraged to update their urban water management plans to prepare for extended drought conditions; (c) the California Department of Water Resources (“DWR”) and the SWRCB are directed to expedite the processing of water transfers; (d) the SWRCB is directed to put water rights holders on notice that they may be required to cease or reduce water

diversions in the future; (e) the SWRCB is directed to consider modifying requirements for reservoir releases or diversion limitations; and (f) DWR is directed to take necessary actions to protect water quality and supply in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the “Bay-Delta”), including the installation of temporary barriers or temporary water supply connections, while minimizing impacts to aquatic species.

In addition, on July 15, 2014, the SWRCB adopted emergency measures requiring water suppliers to implement mandatory Statewide water conservation actions, which are to remain in effect for 270 days. On March 17, 2015, the SWRCB adopted additional emergency regulations limiting outdoor irrigation to two days per week, extending certain measures set forth in the July 15, 2014 action for an additional 270 days, prohibiting outdoor irrigation for 48 hours following rain and prohibiting restaurants from serving water to customers unless requested.

On April 1, 2015, the State Governor issued an executive order extending the measures set forth in the Declaration and adopting the following additional orders, among others: (i) the SWRCB is directed to impose restrictions to reduce potable urban water usage, including usage by commercial, industrial and institutional properties and golf courses, by 25% from 2013 amounts through February 28, 2016; portions of a water supplier’s service area with higher per capita use must achieve proportionally greater reductions than areas with lower per capita use; (ii) DWR is directed to fund a statewide initiative to replace 50 million square feet of lawns with drought tolerant landscaping; (iii) the California Energy Commission is directed to implement a rebate program for replacement of inefficient appliances; (iv) urban water suppliers are required to provide monthly water usage, conservation and enforcement information; (v) service providers are required to monitor groundwater basin levels in accordance with California Water Code § 10933; (vi) permitting agencies are required to prioritize approval of water infrastructure and supply projects; and (vii) DWR is required to plan salinity barriers in the Bay-Delta.

The City’s Municipal Code includes a Water Conservation Plan (the “WCP”), which includes four stages that are designed to reduce potable water demand incrementally in response to supply shortage or drought conditions. Response Level One—Water Shortage Watch Condition is intended to reduce potable water use by up to 10% and includes public awareness and educational efforts with respect to water conservation. Response Level Two—Water Shortage Alert Condition is intended to reduce potable water use by up to 20% and limits landscape irrigation with potable water to three days per week and 10 minutes per station. Runoff and excessive watering is also prohibited. Response Level Three—Water Shortage Critical Condition is intended to reduce potable water use by up to 40% and limits landscape irrigation with potable water to two days a week in summer and one day a week in winter and prohibits decorative water features and non-commercial automobile washes. The City will also impose a moratorium on new connections except under limited circumstances. Response Level Four—Water Shortage Emergency Condition is intended to reduce potable water use to the maximum extent possible and empowers the City Council to impose additional restrictions on water use and to adjust water rates.

On August 13, 2014, in response to the Declaration and the SWRCB’s July 15, 2014 action, the City Council declared a Response Level Two—Water Shortage Alert Condition implementing the following restrictions on potable water use, among others that were already in place: (a) separate watering days were established for homes with odd and even numbered addresses and for multifamily residential units, mobile home parks and business; and (b) landscape watering may not exceed 10 minutes per station. Recycled water purchases are not restricted under the WCP.

The City is studying the Governor’s April 1, 2015 executive order but believes that restrictions to be imposed by the SWRCB to reduce water usage pursuant thereto: (i) do not give sufficient credit for conservation measures that the City has already taken; and (ii) do not reflect high levels of agricultural usage in the City, which usage is excepted from the Governor’s executive order. The City expects to provide comments to the SWRCB with respect to the foregoing.

Implementation of the WCP could adversely affect Wastewater System Revenues to the extent that it results in reduced potable water use. As discussed under the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—*User Charges*,” one of the components of residential wastewater bills is flow rates. Flow rates are based on indoor (non-landscaping) water usage, which is estimated at 80% of the average monthly winter (December to March) water usage per customer the previous year for single family and multi-family residences, and 100% of water usage for mobile homes. Lower winter water usage by residential users in the winter of 2014-15 and future years in response to the WCP or other drought measures adopted by the City could result in reduced flows and, consequently, lower Wastewater System Revenues from residential customers in Fiscal Year 2016 and thereafter. Because the rate for commercial customers is not based on water usage, the drought and the City’s drought measures are not expected to affect Wastewater System Revenues from such customers. The effect on Operation and Maintenance Costs of the Wastewater System as a result of reduced flows is unclear at this time, although it is possible that reduced flows could result in lower water purchase, treatment and delivery costs.

Implementation of the WCP could also increase Wastewater System Revenues to the extent that customers purchase additional amounts of recycled water (usage of which is not restricted under the WCP) in lieu of potable water. See the caption “THE WASTEWATER SYSTEM—Recycled Water System.”

The City notes that restrictions on the use of potable water for irrigation purposes pursuant to the WCP has resulted in increased purchases of recycled water by certain agricultural customers. See the captions “THE WASTEWATER SYSTEM—Historic Wastewater System Service Charge Revenues” and “THE WASTEWATER SYSTEM—Historic Recycled Water Sales.” There can be no assurance that increased recycled water sales revenues will be sufficient to offset the decrease in revenues resulting from reduced potable water use by Wastewater System customers in the current or future Fiscal Years.

Limitations on Remedies

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the 2015 Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” Furthermore, the remedies available to the owners of the 2015 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition, usual equity principles may limit the specific enforcement under State law of certain remedies, as may the exercise by the United States of America of the powers delegated to it by the federal constitution, and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2015 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations, or modification of their rights. Remedies may be limited since the Wastewater System serves an essential public purpose.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. The opinion to be delivered by Bond Counsel concurrently with the issuance of the 2015 Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2015 Bonds will be similarly qualified. See Appendix C. In the event that the City fails to comply with its covenants under the Indenture or fails to pay principal of and interest on the 2015 Bonds, there

can be no assurance of the availability of remedies adequate to protect the interest of the holders of the 2015 Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the 2015A Bonds, the City has covenanted in the Indenture to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2015A Bonds under Section 103 of the Code. Interest on the 2015A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2015A Bonds as a result of acts or omissions of the City in violation of this or other covenants in the Indenture applicable to the 2015A Bonds. The 2015A Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture. See the caption “TAX MATTERS.”

Secondary Market

There can be no guarantee that there will be a secondary market for the 2015 Bonds or, if a secondary market exists, that the 2015 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Parity Obligations

The Indenture permits the City to enter into additional Contracts or issue Bonds payable from Net Revenues of the Wastewater System on a parity with the 2015 Bonds, subject to the terms and conditions set forth therein. The entry into of additional Contracts or the issuance of Bonds could result in reduced Net Revenues available to pay the 2015 Bonds. The City has covenanted to maintain Debt Service coverage of 115%, as further described under the caption “SECURITY FOR THE 2015 BONDS—Additional Indebtedness.”

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the 2015 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix C, and such legal opinion will be attached to each 2015 Bond. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by Jeffrey Epp, Esquire, City Attorney, for the Underwriter by its counsel, Best Best & Krieger LLP, and for the Trustee and the Escrow Bank by its counsel.

From time to time Bond Counsel represents the Underwriter on matters unrelated to the issuance of the 2015 Bonds or other City obligations.

LITIGATION

At the time of delivery of and payment for the 2015 Bonds, the City will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City affecting the existence of the City or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the 2015 Bonds, the application of the proceeds thereof in accordance with the Indenture, or

in any way contesting or affecting the validity or enforceability of the 2015 Bonds, the Indenture, or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the 2015 Bonds or any action of the City contemplated by any of said documents, nor to the knowledge of the City, is there any basis therefor.

TAX MATTERS

2015A Bonds

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2015A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2015A Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 2015A Bonds 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.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2015A Bonds 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 Code that must be satisfied subsequent to the issuance of the 2015A Bonds to assure that interest (and original issue discount) on the 2015A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2015A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015A Bonds. The City has covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a 2015A Bond (the first price at which a substantial amount of the 2015A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2015A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable 2015A Bond. The amount of original issue discount that accrues to the Beneficial Owner of a 2015A Bond is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

The amount by which a 2015A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2015A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the 2015A Bond Owner's basis in the applicable 2015A Bond (and the amount of tax-exempt interest received with respect to the 2015A Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2015A Bond Owner realizing a taxable gain when a 2015A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015A Bond to the Owner. Purchasers of the 2015A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond 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 2015A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2015A Bonds might be affected as a result of such an audit of the 2015A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2015A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2015A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2015A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2015A BONDS OR THE MARKET VALUE OF THE 2015A BONDS. 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 2015A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2015A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE 2015A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2015A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2015A BONDS.

Bond Counsel’s opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2015A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any 2015A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest (and original issue discount) on the 2015A Bonds 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 2015A Bonds and the accrual or receipt of interest (and original issue discount) on the 2015A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2015A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2015A Bonds.

Should interest (and original issue discount) on the 2015A Bonds become includable in gross income for federal income tax purposes, the 2015A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

2015B Bonds

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2015B Bonds is exempt from State of California personal income tax.

With certain exceptions, the difference between the issue price of a 2015B Bond (the first price at which a substantial amount of the 2015B Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2015B Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the Beneficial Owner of a 2015B Bond will increase the Beneficial Owner's basis in the 2015B Bond. Beneficial Owners of the 2015B Bonds should consult their own tax advisors with respect to taking into account any original issue discount on the 2015B Bonds.

The amount by which a 2015B Bond Beneficial Owner's original basis for determining loss on sale or exchange in the applicable 2015B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which the Beneficial Owner of a 2015B Bond may elect to amortize under Section 171 of the Code; such amortizable bond premium reduces the 2015B Bond Beneficial Owner's basis in the applicable 2015B Bond (and the amount of taxable interest received with respect to the 2015B Bonds), and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2015B Bond Beneficial Owner realizing a taxable gain when a 2015B Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015B Bond to the Beneficial Owner. The Beneficial Owners of the 2015B Bonds that have a basis in the 2015B Bonds that is greater than the principal amount of the 2015B Bonds should consult their own tax advisors with respect to whether or not they should elect such premium under Section 171 of the Code.

The tax discussion set forth above is included for general information only and may not be applicable depending upon a 2015B Bond Owner's particular situation. The ownership and disposal of the 2015B Bonds and the accrual or receipt of interest on the 2015B Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. **BEFORE PURCHASING ANY OF THE 2015B BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES RELATING TO THE 2015B BONDS AND THE TAXPAYER'S PARTICULAR CIRCUMSTANCES.**

A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix C.

RATING

The City expects that Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") will assign the 2015 Bonds the rating of "AA-". There is no assurance that any credit rating given to the 2015 Bonds will be maintained for any period of time or that a rating may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2015 Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

UNDERWRITING

The 2015 Bonds will be purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter") pursuant to a Bond Purchase Agreement, dated April 29, 2015, by and between the City and the Underwriter (the "Purchase Contract"). Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the 2015 Bonds for an aggregate purchase price of \$21,970,022.24 (representing the principal amount of the 2015 Bonds, less Underwriter's discount of \$92,468.21, plus net original issue premium of \$2,357,490.45). The Purchase Contract provides that the Underwriter will purchase all of the 2015 Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2015 Bonds to certain dealers (including dealers depositing 2015 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

CONTINUING DISCLOSURE UNDERTAKING

The City has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and Beneficial Owners of the 2015 Bonds to provide certain financial information and operating data relating to the City by not later than March 1 following the end of the City's Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2015, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission.

The continuing disclosure undertaking (the "Undertaking") for the City of Escondido Reassessment District No. 98-1 (Rancho San Pasqual) Limited Obligation Refunding Bonds (the "1998 Bonds") requires the filing of audited financial statements of the City each year. The Undertaking also requires the filing of unaudited financial statements if audited financial statements are not available, but only in a format similar to financial statements contained in the official statement for the 1998 Bonds. The City filed its audited financial statements after the date required by the Undertaking for each of the last five years. The annual reports for the 1998 Bonds, which were timely filed, noted that the audited financial statements would be filed when available. Such annual reports further noted that unaudited financial statements were not being filed because the Undertaking only requires the filing of unaudited financial statements in a format similar to the financial statements contained in the official statement for the 1998 Bonds, while the City's financial statements were not included in the official statement for the 1998 Bonds.

Except as disclosed in the prior paragraph, the City has not in the past five years failed to comply with any previous continuing disclosure undertaking in any material respect.

FINANCIAL INTERESTS

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel, Best Best & Krieger LLP, as counsel to the Underwriter, the Trustee and the Escrow Bank are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

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MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2015 Bonds.

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

CITY OF ESCONDIDO

By: _____ /s/Clay Phillips
City Manager

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APPENDIX A
FINANCIAL STATEMENTS

City of Escondido

CALIFORNIA

MAPLE STREET PLAZA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014



CITY OF ESCONDIDO • CALIFORNIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014

MAYOR
Sam Abed

CITY COUNCIL
Olga Diaz, Deputy Mayor
Ed Gallo
Michael Morasco
John Masson

CITY MANAGER
Clay Phillips

ASSISTANT CITY MANAGER
Charles Grimm

CHIEF OF POLICE

Craig Carter

CITY ATTORNEY

Jeffrey Epp

CITY CLERK

Diane Halverson

CITY TREASURER

Kenneth Hugins

DIRECTOR OF ADMINISTRATIVE SERVICES

Sheryl Bennett

DIRECTOR OF COMMUNITY DEVELOPMENT

Barbara Redlitz

DIRECTOR OF INFORMATION SYSTEMS

Mark Becker

DIRECTOR OF LIBRARY AND COMMUNITY SERVICES

Loretta McKinney

DIRECTOR OF PUBLIC WORKS

Ed Domingue

DIRECTOR OF UTILITIES

Christopher McKinney

FIRE CHIEF

Michael Lowry

Prepared by the Finance Department



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June 30, 2014

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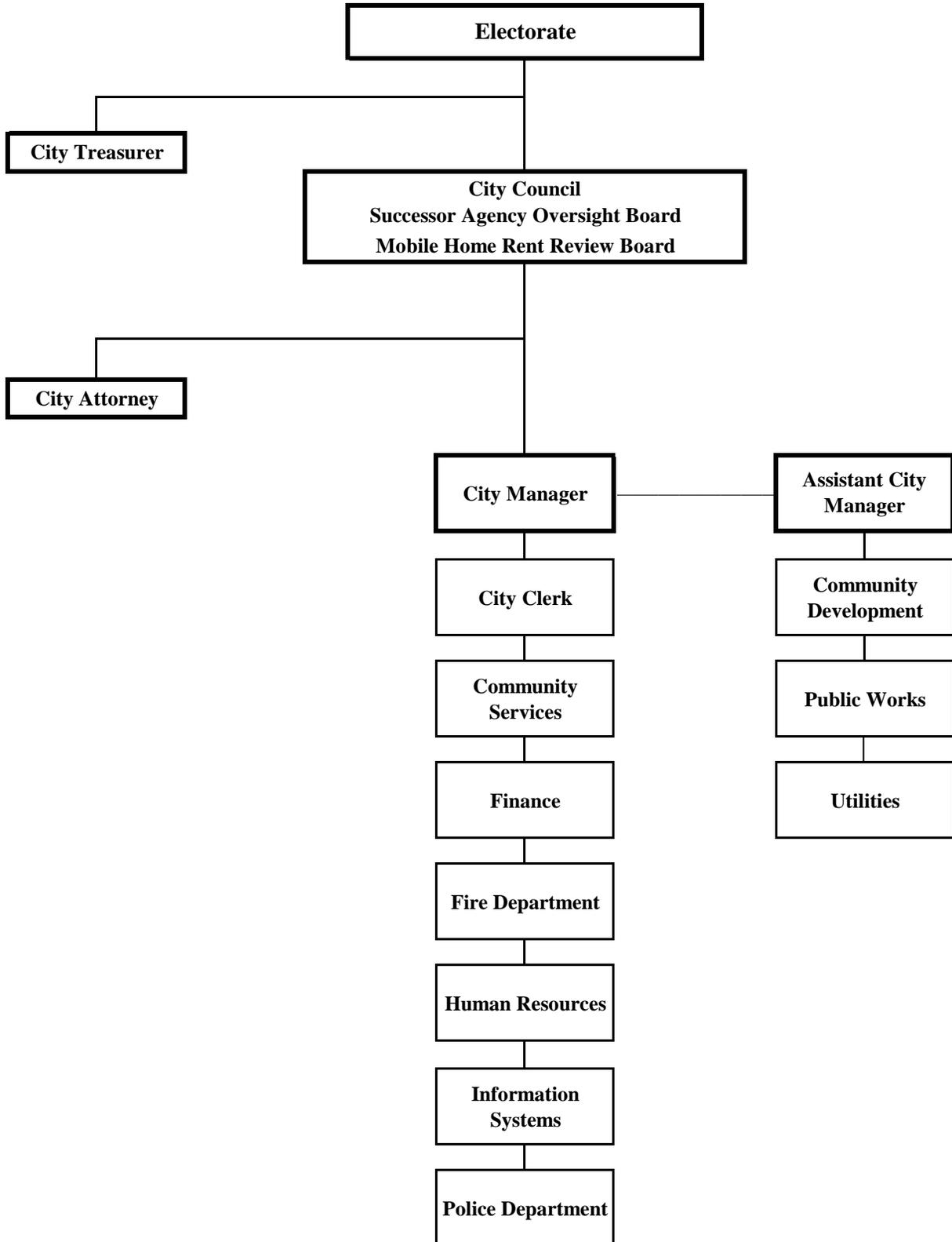
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CITY OF ESCONDIDO
Comprehensive Annual Financial Report
Organization Chart
June 30, 2014



December 30, 2014

Honorable Mayor, City Council, and Citizens of the City of Escondido:

It is our pleasure to present the Comprehensive Annual Financial Report (CAFR) of the City of Escondido for the fiscal year ended June 30, 2014.

This report consists of management's representations concerning the finances of the City of Escondido. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Escondido has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Escondido's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Escondido's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Escondido's financial statements have been audited by Lance, Soll & Lunghard, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Escondido for the fiscal year ended June 30, 2014, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Escondido's financial statements for the fiscal year ended June 30, 2014, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

In addition, Lance, Soll & Lunghard, LLP audited the City's major program expenditures of federal funds for compliance with the Federal Single Audit Act Amendments of 1996, the Office of Management and Budget Circular A-133 regulating Single Audits, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR and may be obtained upon request from the City's Finance Department.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Escondido's MD&A can be found immediately following the Independent Auditors' Report.

This report is organized into three sections:

- The Introductory Section is intended to familiarize the reader with the organizational structure of the City, the nature and scope of City services, and specifics of the City's legal operating environment.
- The Financial Section includes Management's Discussion & Analysis, Basic Financial Statements, Notes to Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for each of the City's

CITY OF ESCONDIDO
Letter of Transmittal
December 30, 2014

major funds, non-major governmental funds, as well as proprietary funds, internal service funds, and fiduciary funds. This section also contains the independent auditor's report on the Basic Financial Statements.

- o The Statistical Section presents up to ten years of detailed statistical data on the City's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.

CITY OF ESCONDIDO PROFILE

The City of Escondido is located in north San Diego County, approximately 30 miles north of the City of San Diego, California. Escondido is an established community incorporated on October 8, 1888 under the general laws of the State of California. The City's current population is 145,900. Within the 36 square miles that comprise the City, there are many residential communities; the largest enclosed regional mall in San Diego County; 2 regional hospitals; 17 hotels; an auto center; many office, industrial, and commercial centers; and civic, cultural, and recreational facilities.

The City operates under a Council-Manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor and a four member Council. The City Council is elected by districts on a staggered basis for a term of four years. The Mayor is directly elected at large for a four-year term. The City Treasurer is also elected to a four-year term. The City Council appoints the City Manager and the City Attorney. The operating departments include City Clerk, Community Development, Community Services, Finance, Fire, Human Resources, Information Systems, Police, Public Works, and Utilities.

The City provides the following services to its residents: police and fire protection, water and wastewater services, building safety regulation and inspection, circulation and public facility capital improvement construction, street and park maintenance, refuse collection, planning and zoning, a full range of recreational programs for citizen participation, a senior center, and a library.

The City is financially accountable for two legally separate entities that are included as an integral part of the City's financial statements. These component units include the Vehicle Parking District, established for the purpose of acquiring and improving parking lots in Escondido, and the Escondido Joint Powers Financing Authority, an entity created to issue debt to finance City projects.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City and to differentiate their financial position, results of operations and cash flows from those of the City. The California Center for the Arts, Escondido Foundation is a discretely presented component unit.

The City Manager is required to prepare and submit to the City Council an annual proposed budget. Budget hearings are held and a final budget is adopted before July 1, which is the start of the new fiscal year. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within a fund.

Financial administration of the City is the responsibility of the Director of Administrative Services. The Finance Department management staff includes an Assistant Finance Director, which supervises the City's day-to-day accounting and budget operations. The City Treasurer is responsible for investing the City's portfolio and bond administration.

CITY OF ESCONDIDO
Letter of Transmittal
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ECONOMIC CONDITION

Local Economy. The “Great Recession” starting at the end of 2008 has had a significant impact on City services. Quick and decisive action by the City Council and Management to cut costs has been a significant factor in reestablishing City services as quickly as possible. The goal was to cut expenses, but keep as many services as possible by being efficient and economical in providing basic service. The local economy received an economic boost from the opening of a Wal-Mart store and a separate Wal-Mart grocery store in fiscal year 2013-2014. The recently completed remodel of Westfield shopping mall and the possible additions of popular restaurants on the premises should also be of significant economic benefit to City revenues. As of September 2014, the unemployment rate in Escondido was 6.1%. The San Diego countywide unemployment rate was 5.9% with the State of California recording a 7.3% rate.

Long-term Financial Planning. The City adopted a balanced budget for fiscal year 2013-14 using a combination of cost reductions and revenue increases. For the fourth year in a row, the City Council adopted a budget that does not rely on reserves for fiscal year 2014-15. The two-year General Fund budget was adopted with the assumption that sales tax and property tax will continue to show growth.

The City Council Action Plan is developed biennially following a workshop where key policy interests are identified and discussed by the City Council and City Staff represents the City Council's collective vision for Escondido's future and the key activities that will be used to achieve that vision. In February 2013, the City Council held a workshop to identify and discuss key policy goals. During that meeting, each council member was able to elaborate on their ideas for city priorities. At the conclusion of the workshop, the City Council approved the following categories (in alphabetical order) for the fiscal year 2013-14 Council Action Plan: Economic Development, Fiscal Management, Neighborhood Improvement, and Public Safety.

Financial Policies. The elected City Treasurer has responsibility for the investment and management of excess available cash. The City utilizes a pooled investments approach in investing excess funds in accordance with the investment strategies and standards set forth in the Escondido Investment Policy. This policy is reviewed and approved by the City Council on an annual basis, and defines the prioritized objectives of investment selection as safety of principal and sufficiency of liquidity. Maximization of investment yield is sought in a manner consistent with the primary objectives of safety and liquidity. The City's investment strategy is to hold investments to maturity.

The City's investments include United States Treasury Notes, obligations issued by various United States Government Agencies, money market funds and investments in the Local Agency Investment fund (LAIF) established by the State Treasurer. The average yield on the general investment portfolio for the Fiscal Year 2013-14 was 1.08 percent, as compared to 1.27 percent for the Fiscal Year 2012-13. The yield on the portfolio will most likely continue to decline as older, higher yielding investments mature and are replaced with investments yielding the lower current market rates of return.

The Treasurer prepares quarterly investment reports that provide summary information on the status of the portfolio, including the par, book and market values of each security by investment type, detail of major portfolio transactions occurring during the period and investment yield information. The Quarterly investment reports are submitted to the City Manager and City Council.

The City has implemented a Fund Balance Policy, per Governmental Accounting Standards Board (GASB) Statement No. 54. This policy provides that the City Council may commit General Fund Balance for specific

CITY OF ESCONDIDO
Letter of Transmittal
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purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action to establish the commitment.

The City commits remaining fund balance in the General Fund at year end in order to mitigate future risks, provide for cash flow requirements and contingencies for unseen operating or capital needs. This committed General Fund balance is available to fund one-time unanticipated expenditure requirements, local disasters or when actual revenue received is less than the amount budgeted resulting in an operating deficit in the General Fund.

When restricted and unrestricted fund balance is available, the City spends restricted fund balance first. Also, the City reduces committed amounts first, followed by assigned amounts and then unassigned amounts when an expenditure is incurred for purposes in which amounts in any of these unrestricted classifications of fund balance could be used. The City's general fund currently has \$17 million in General Fund Reserves.

In August 2014 the Standard & Poor's Ratings Services upgraded several of Escondido's bond ratings. Standard & Poors raised its long-term rating and underlying rating to 'AA-' from 'A+' on Escondido's existing general obligation (GO) bonds. At the same time, Standard & Poor's raised the long-term ratings to 'A+' from 'A' on the Escondido Joint Powers Financing Authority's lease revenue bonds, and on the city's existing appropriation debt. The stable outlook for all bonds reflects Standard & Poor's opinion that Escondido's strong unreserved fund balances will likely provide a financial cushion should the city experience any revenue decrease to balance operations.

AWARDS AND ACKNOWLEDGMENTS

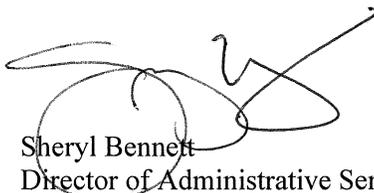
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Escondido for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

We would like to extend our appreciation to the Mayor, City Council, City Manager, and each City department for their cooperation and support in conducting the fiscal operations of the City.

Respectfully submitted,


Sheryl Bennett
Director of Administrative Services


Joan Ryan
Assistant Director of Finance





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Escondido
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

Financial Section

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Escondido, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Escondido, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the Honorable Mayor and Members of the City Council
City of Escondido, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Escondido, California, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



To the Honorable Mayor and Members of the City Council
City of Escondido, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Lance, Solt & Luyhard, LLP

Brea, California
December 30, 2014

CITY OF ESCONDIDO Management's Discussion and Analysis

As management of the City of Escondido (City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information furnished in our Letter of Transmittal, which can be found on pages 8-11 of this report.

Financial Highlights

Government-wide Basis:

- At the close of the most recent fiscal year, the assets plus deferred outflows of the City exceeded its liabilities by \$532,995,953 (*net position*).
- The government's total net position increased by \$1,488,603. Governmental activities decreased by 1.6 percent using beginning of year net position, while business-type activities increased by 3.4 percent. The increase in net position is largely attributable to an increase in total charges for services for the business-type activities.
- The City's total long-term liabilities, including such items as bonds, loans payable, accrued self-insured claims, and employee leave benefits decreased by \$6,892,213, or 2.6 percent, during the fiscal year. The change reflects a \$1,640,874 decrease for governmental activities and a \$5,251,339 decrease for business-type activities. The decrease in long-term liabilities for governmental activities and business-type activities is due to routine principal and interest payments on outstanding obligations.

Fund Basis:

- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$102,745,602, a decrease of \$559,587 in comparison with the prior year.
- At the end of the current fiscal year, fund balance committed to Reserves in the General Fund was \$17,319,659 or 21.4 percent of General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on the City's assets, deferred outflow of resources, and liabilities plus deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish governmental functions of the City, which are mainly supported by taxes and intergovernmental revenues, from the business-type functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City

CITY OF ESCONDIDO Management's Discussion and Analysis

include general government, public safety, community services, public works, and community development. The business-type activities of the City include Water and Wastewater services.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate California Center for the Arts, Escondido Foundation. Financial information for the California Center for the Arts, Escondido Foundation for the fiscal year ending June 30, 2014 is being reported separately from the primary government, as it is known as a discretely presented component unit. The government-wide financial statements can be found on pages 34-37 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Escondido can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and the Successor Agency Housing Special Revenue Fund which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 38-45 of this report.

Proprietary funds. The City maintains two different types of proprietary funds, the Enterprise and the Internal Service Funds. The *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The enterprise funds are used to account for its Water and Wastewater Funds. The *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Vehicle and Equipment Maintenance, General Liability, Workers' Compensation, Central Services, Insurance, Building Maintenance, and Office Automation Funds. Since these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide detailed information for the Water and Wastewater Funds, both of which are considered to be major funds. Conversely, all internal service funds are combined into a

CITY OF ESCONDIDO
Management's Discussion and Analysis

single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 46-51 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs.

The fiduciary fund financial statements can be found on pages 52-53 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 54-96 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 98-104 of this report. The combining statements referred to earlier, in connection with nonmajor governmental funds and internal service funds can be found on pages 110-137 of this report.

City of Escondido's Statement of Net Position

(Amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Assets and deferred outflows of resources:						
Current and other assets	\$ 152,070	\$ 150,124	\$ 125,109	\$ 128,086	\$ 277,179	\$ 278,210
Capital assets	285,103	291,770	241,046	234,716	526,149	526,486
Deferred outflows of resources	55	58	2,715	2,906	2,770	2,964
Total assets and deferred outflows of resources	<u>437,228</u>	<u>441,952</u>	<u>368,870</u>	<u>365,708</u>	<u>806,098</u>	<u>807,660</u>
Liabilities:						
Long-term liabilities outstanding	96,219	98,845	146,314	151,488	242,533	250,333
Other liabilities	17,093	13,804	13,477	12,015	30,570	25,820
Total liabilities	<u>113,312</u>	<u>112,649</u>	<u>159,791</u>	<u>163,503</u>	<u>273,103</u>	<u>276,153</u>
Net position:						
Net investment in capital assets	207,004	211,228	151,540	141,057	358,544	352,285
Restricted	92,356	90,152			92,356	90,152
Unrestricted	24,556	27,923	57,540	61,147	82,096	89,070
Total net position	<u>\$ 323,916</u>	<u>\$ 329,303</u>	<u>\$ 209,080</u>	<u>\$ 202,204</u>	<u>\$ 532,996</u>	<u>\$ 531,507</u>

CITY OF ESCONDIDO Management's Discussion and Analysis

Analysis of Net Position

As noted earlier, the City's net position can serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets plus deferred outflows of resources exceeded liabilities by \$532,995,953. Below are the three components of net position and their respective fiscal year-end balances:

- **Net investment in capital assets:** At June 30, 2014 the net investment in capital assets represents 67.3 percent, or \$358.5 million, of the City's total net position. This component consists of capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Capital assets themselves cannot be used to liquidate these liabilities.
- **Restricted net position:** At June 30, 2014 restricted net position account for 17.3 percent, or \$92.4 million, of the City's total net position and represent resources that are subject to external restrictions on how they may be used.
- **Unrestricted net position:** The remaining balance of unrestricted net position account for 15.4 percent, or \$82.1 million, of the City's total net position and may be used to meet the government's ongoing obligations to citizens and creditors for each respective governmental or business-type activity.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

CITY OF ESCONDIDO
Management's Discussion and Analysis

City of Escondido's Changes in Net Position

(Amounts expressed in thousands)

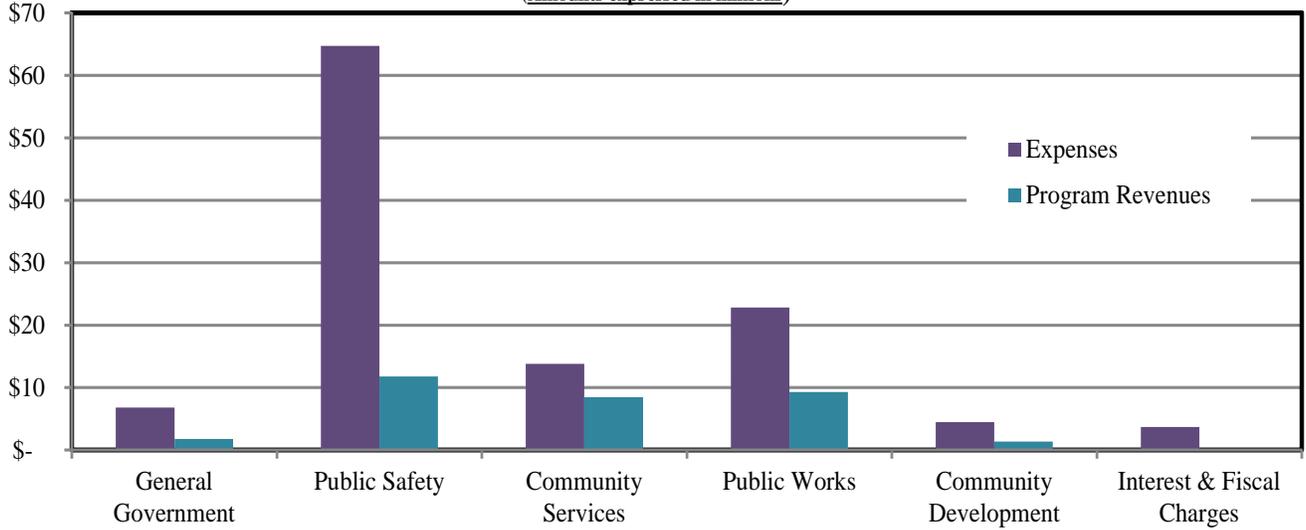
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 16,277	\$ 15,099	\$ 83,825	\$ 77,339	\$ 100,102	\$ 92,438
Operating grants and contributions	13,031	12,507	243	7	13,274	12,514
Capital grants and contributions	3,332	8,528	1,880	3,859	5,212	12,387
General revenues:						
Sales tax	27,366	24,202			27,366	24,202
Property taxes	16,805	16,739			16,805	16,739
Other taxes	28,988	27,530			28,988	27,530
Other	5,047	4,360	1,738	1,970	6,785	6,330
Total revenues	<u>110,846</u>	<u>108,965</u>	<u>87,686</u>	<u>83,175</u>	<u>198,532</u>	<u>192,140</u>
Expenses:						
General government	6,817	6,931			6,817	6,931
Public safety	64,735	58,937			64,735	58,937
Community services	13,824	13,492			13,824	13,492
Public works	22,831	28,719			22,831	28,719
Community development	4,443	6,096			4,443	6,096
Contributions to other governments		4,319				4,319
Interest and fiscal charges	3,708	4,039			3,708	4,039
Water			51,937	48,899	51,937	48,899
Wastewater			28,748	25,848	28,748	25,848
Total expenses	<u>116,358</u>	<u>122,533</u>	<u>80,685</u>	<u>74,747</u>	<u>197,043</u>	<u>197,280</u>
Extraordinary gain (loss)		<u>(34,948)</u>				<u>(34,948)</u>
Increase in net position before transfers	(5,512)	(48,516)	7,001	8,428	1,489	(40,088)
Transfers	125	25	(125)	(25)		
Increase in net position before transfers	(5,387)	(48,491)	6,876	8,403	1,489	(40,088)
Net assets – July 1, as restated	<u>329,303</u>	<u>377,794</u>	<u>202,204</u>	<u>193,801</u>	<u>531,507</u>	<u>571,595</u>
Net assets – June 30	<u>\$ 323,916</u>	<u>\$ 329,303</u>	<u>\$ 209,080</u>	<u>\$ 202,204</u>	<u>\$ 532,996</u>	<u>\$ 531,507</u>

**CITY OF ESCONDIDO
Management's Discussion and Analysis**

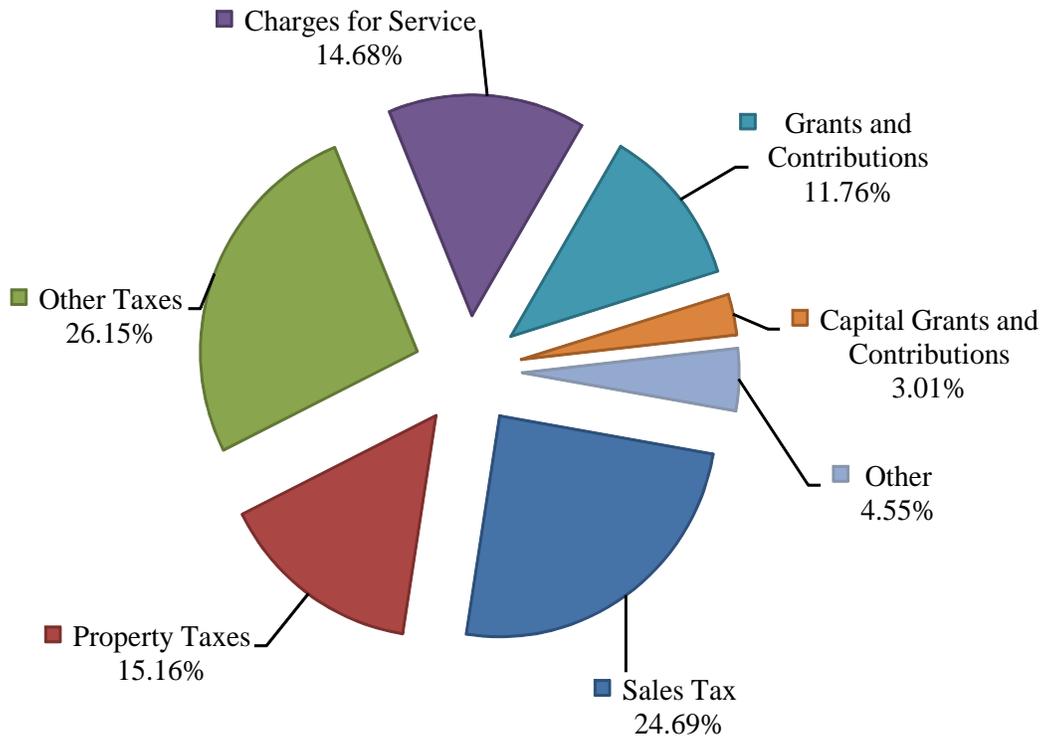
Expenses and Program Revenues – Governmental Activities

Expenses and Program Revenues - Governmental Activities

(Amounts expressed in millions)



Revenues by Source – Governmental Activities



CITY OF ESCONDIDO

Management's Discussion and Analysis

Analysis of Changes in Net Position – Governmental activities

Governmental activities decreased the City's net position by \$5,386,997.

Total governmental revenues increased by \$1.9 million or 1.7 percent during the current fiscal year to reach total revenues of \$110 million. Key elements of this change are as follows:

- Overall sales tax revenue increased by \$3.2 million, or 13.1 percent compared to the prior year. Revenue received from sales tax increased from the prior fiscal year due to an increase in the City's largest economic category, transportation, due to a rise in new and used auto sales during the fiscal year.
- Property tax revenue remained steady over the prior fiscal year increasing by about 0.4 percent. The assessed value growth for Escondido in fiscal year 2013/14 was up about 2.7 percent compared to the prior year.
- Other tax revenue increased by \$1.5 million, or 5.3 percent, and is composed of increases in property tax in lieu of sales tax, property tax in lieu of vehicle license fees (VLF), property transfer tax, transient occupancy tax, and business licenses. Property tax in lieu of sales tax saw the largest increase over the prior fiscal year, about \$723,000 due to increased sales tax collected on new auto sales. Property tax in lieu of VLF also saw an increase of 2.3 percent or \$240,000 due to the increase in the property tax assessed values in the City.
- Other revenue increased by \$686,221, or 15.7 percent, compared to last year due to an increase in loan interest revenue collected during the fiscal year as well as an increase in accrued interest revenue from the Housing Successor Agency loan portfolio.

Overall charges for services increased by \$1.2 million, or 7.8 percent, reflecting the following:

- General government charges for services increased by \$567,000 due to an increase in paramedic revenue of \$0.5 million as well as engineering fees of \$360,000 related to revenue recognized for fiber optic installations. These increases were offset by a decrease in mobilehome fees as well as the elimination of passport services performed by the City.
- Public safety charges for services decreased by \$.1 million primarily due to a reduction from red light camera fines, impound fees and parking ticket fines.
- Community services charges for services decreased by \$14,000 due to a reduction in the mobilehome rent revenue received during the fiscal year.
- Public works charges for services increased by \$293,000 due to an increase in engineering fees as a result of more construction activity throughout the city as well as increases in the utility underground waiver fees collected from developers.
- Community development charges for services increased by \$438,000 due to an increase in other planning fees collected as a result of an increase in construction and building activity in the city.

Operating grants and contributions increased by \$.5 million, or 4.2 percent, reflecting the following:

- General government operating grants and contributions decreased by \$230,000 due to fewer state and county grants received in the current fiscal year. In fiscal year 2013 the City received a one-time grant of \$200,000 from the State for remediation of the Benton Burn Site located within the Escondido Country Club area. The City also received approximately \$100,000 more in fiscal year 2013 from the County of San Diego for the Regional Auto Theft Task Force program. These decreases were offset by increases in PEG fee revenue recognized during the current fiscal year for a capital improvement project that will use those fees to purchase equipment to support the City's Government Access Channel facilities.

CITY OF ESCONDIDO Management's Discussion and Analysis

- Public safety operating grants and contributions increased by \$.9 million. This was primarily due to new Federal funding administered by the California Department of Health and Human Services called the Ground Emergency Medical Transportation Supplemental Reimbursement Program. The City received approximately \$933,000 in fiscal year 2014 and anticipates receiving \$400,000 annually.
- Community services operating grants and contributions decreased by \$.9 million due to federal grant revenue of \$977,000 received in the prior fiscal year for the Neighborhood Stabilization Program. Funds were used for the new construction of affordable housing units for the purpose of redevelopment. This grant program ended in fiscal year 2013.
- Public works operating grants and contributions increased by \$.7 million due to an increase of approximately \$1.2 million in Gas Tax revenue received over the prior fiscal year. This increase was offset by \$.4 million of one-time revenue received in fiscal year 2013 as a result of Assembly Bill 1572 which required the San Diego Association of Governments to distribute all San Diego Service Authority for Freeway Emergencies (SAFE) program reserves in excess of \$4 million in proportion to the vehicle registration fees paid in FY 2011 by the residents of each city and the unincorporated areas.

Capital grants and contributions decreased by \$5.2 million, or 60.9 percent, compared to the prior year. This decrease was mainly the result of large developer contributions received in fiscal year 2013 totaling \$3.7 million for streets, signalized lights and storm drains related to the completion of several housing projects. The City also received approximately \$1.5 million more than the current fiscal year in federal grant revenue for construction of the Maple Street Pedestrian Plaza which was completed in the prior fiscal year.

Governmental activities expenses decreased by \$6.2 million, or 5.0 percent, in fiscal year 2014. Details of these expenses include:

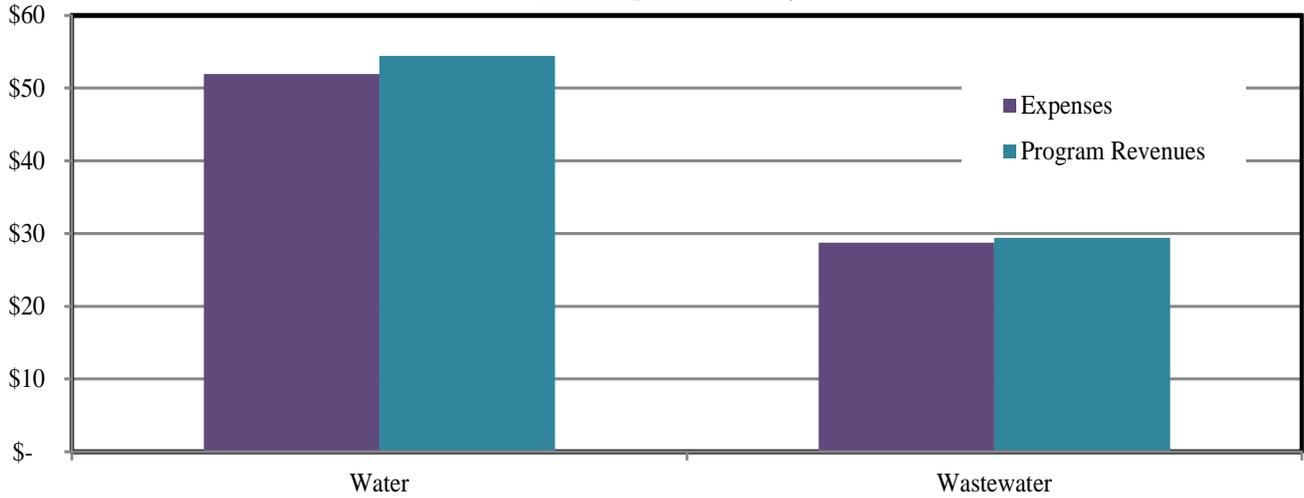
- Public safety expenses increased by \$5.8 million, or 9.8 percent, compared to the prior year. The Fire department added three safety positions to staff the Seventh Engine Company and twenty-four non-safety positions to staff additional ambulances during mid-year 2012-13. In addition there were negotiated salary increases effective during the fiscal year, increases to workers' compensation liabilities as well as increased overtime paid to firefighters and public safety employee overhead expenses.
- Public works expenses decreased by \$5.9 million, or 20.5 percent, primarily due to a decrease in Street Maintenance expenditures of approximately \$1.7 million. In addition, a department reorganization decreased employee services, internal service charges, and professional service charges. Supplies for the parks maintenance department also decreased in the fiscal year.
- Community development expenses decreased by \$1.7 million, or 27.1 percent, compared to the prior year due to the dissolution of the Community Development Commission. The dissolution of the Commission eliminated the twenty percent tax increment housing set-aside required by the State to be used to assist low and moderate income families within the City. Without the funding, the activities of the Housing Department were reduced as well as the internal service allocations which decreased the Community Development expenditures incurred in the current fiscal year.
- Contributions to other governments of \$4.3 million were reported in the prior fiscal year due to activities related to the dissolution of the Escondido Redevelopment Agency. This activity represented available resources in the Debt Service Housing fund that were contributed to the Successor Agency of the Former Community Development Commission Private Purpose Trust Fund.

CITY OF ESCONDIDO
Management's Discussion and Analysis

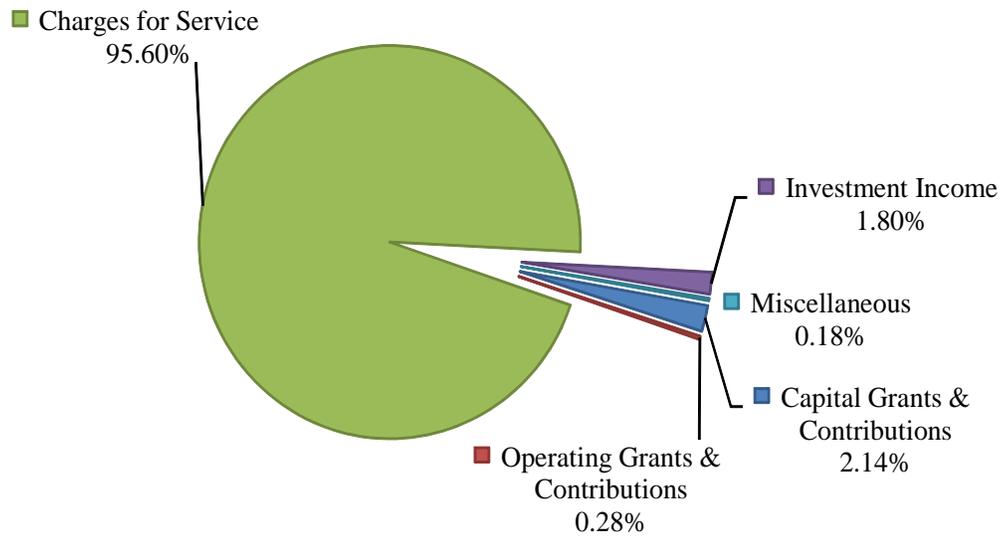
Expenses and Program Revenues – Business-type Activities

Expenses and Program Revenues - Business Activities

(Amounts expressed in millions)



Revenues by Source – Business-type Activities



CITY OF ESCONDIDO Management's Discussion and Analysis

Analysis of Changes in Net Position – Business-type activities. Business-type activities increased the City's net position by \$6,875,600. Key elements of this increase are as follows:

- Charges for services increased by \$6.5 million or 8.4 percent largely due to rate increases that went into effect in the current year and resulted in increased charges for services to the water fund of \$5.5 million and \$931,000 in the wastewater fund.
- Total expenses increased by \$5.9 million or 8.0 percent, mainly due to an increase in purchased water costs of \$5.0 million which occurred because the cost to purchase water from San Diego County Water Authority went up about 7.5% during the year. In addition water consumption increased in 2013-14, which resulted in more purchased water needed than in the prior year when reservoirs were full and more local water was sold. Purchased water costs approximately 25% more than local water. Wastewater expenses increased due to a \$1 million increase in professional service contracts for the benthic study, ocean monitoring and municipal separate storm sewer (MS4) maintenance. In addition, due to reorganization within the utilities department, five full-time positions were added to the Wastewater fund.
- Capital contributions decreased by \$2.3 million due to donated assets received in the prior fiscal year by private developers as part of the following capital projects completed in fiscal year 2013: Paramount, a residential multifamily subdivision, Washington Hills, a 124 unit subdivision, and Rancho Vistamonte, an 80 unit upscale subdivision.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$102,745,602, a decrease of \$560,000 in comparison with the prior year. Of this amount, .2 percent or \$217,690 represents non-spendable assets, advances and loans receivable, which are not expected to be converted to cash until future periods. Approximately 79.4 percent of this total amount or \$81,559,045 is not available for new spending because it is legally restricted by external third parties. In addition, \$20,365,302 or 19.8 percent of ending fund balance has either been committed by the City Council to be spent for specific purposes or has been assigned by the Director of Administrative Services to meet specific expenditures in subsequent years. The remaining unassigned fund balance of \$603,565 is available for spending.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, committed fund balance of the General Fund includes \$17,319,659 in Reserves available to fund one-time unanticipated expenditures while total fund balance is \$20,188,333. As a measure of the General Fund's liquidity, it may be useful to compare the Reserve fund balance and total fund balance to total fund expenditures. The Reserve fund balance represents 21.4 percent of total General Fund expenditures, while total fund balance represents 25.0 percent of that same amount.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$753,472. General Fund operating revenues were \$3.5 million greater than the prior fiscal year but were also slightly under budget by \$.3 million. Operating expenditures for the General Fund were \$3.4 million greater than the prior year but under budgeted amounts by approximately \$2 million. The excess of revenues over expenditures of \$260,000 was offset by net transfers out of the General Fund of \$1.6 million. The Fleet and Public Facilities Funds transferred money to the General Fund in December 2010 to go towards the purchase of property. This property was sold during the current fiscal year; the proceeds were used to pay back the transfer.

CITY OF ESCONDIDO
Management's Discussion and Analysis

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, the unrestricted net position of the Water and Wastewater Fund amounted to \$21,567,036, and \$35,719,184 respectively. The total growth in net position was the result of an increase of \$5,118,805 in the Water Fund and \$2,343,267 in the Wastewater Fund. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The original general fund operating budget approved by Council was balanced with no use of reserves or significant one time transfers in from other funds. This was achieved with estimated revenues and transfers in of \$82.8 million and estimated expenditures and transfers out of \$82.5 million.

A comparison of the original general fund budgeted revenue of \$82.8 million to the final general fund budgeted revenue of \$84.0 results in a net increase in budgeted revenue of \$1.2 million. This increase was due to a mid-year budget adjustment that increased revenue estimates by \$1.2 million mainly as a result of improved other tax receipts and charges for services.

Differences between the original and the final budgeted revenues can be briefly summarized as follows:

\$ 1,257,500	in decreases in sales taxes
1,221,500	in increases in other taxes
100,000	in decreases to fines and forfeitures
36,000	in increases to intergovernmental revenue
830,190	in increases in charges for services
200,000	in decreases in investment income
515,155	in increases in other miscellaneous revenue
130,079	in increases in transfers in

Comparison of the fiscal year original general fund budgeted expenditures of \$82.5 million to the final general fund budgeted expenditures of \$86.6 million results in a net increase in budgeted expenditures of \$4.1 million.

Differences between the original and the final budgeted expenditures can be briefly summarized as follows:

\$ 108,465	in decreases in general government activities
427,625	in increases allocated to the police department
360,625	in increases allocated to the fire department
50,335	in increases allocated for public works
110,495	in increases in community services
39,730	in increases in community development activities
3,208,937	in increases to operating transfers out

Actual General Fund revenues were \$129,903 less than final budgeted amounts and expenditures were \$1,970,289 less than final budgeted amounts. The General Fund ended the fiscal year with a \$753,472 net loss and Reserve balance of \$17.3 million.

CITY OF ESCONDIDO Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital assets. As of June 30, 2014, the City's investments in capital assets for its governmental and business-type activities are \$526,149,682, (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, machinery and equipment, motorized vehicles, park facilities, roads, bridges, water and wastewater systems, and a golf course. The total decrease in the City's investment in capital assets for the current fiscal year is .06 percent; this represents a 2.3 percent decrease for governmental activities and a 2.7 percent increase for business-type activities.

Governmental Activities. Major capital asset events for governmental activities during the current fiscal year included the following:

Construction in progress decreased by a net \$87,560 due to current year increases of \$4,686,394 and decreases of \$4,773,957. Current year additions include a street project to widen an existing two-lane roadway to four-lanes on Bear Valley Parkway; the Citracado & Harmony Grove project which includes widening the street and median improvements, and various network upgrades.

Current year decreases to construction in progress were due to the completion of the Grape Street Improvement project which includes new curbs, gutters, retaining walls, sidewalks, street lights and street surfaces, the Daley Ranch Improvement Project to retrofit the ranch house for public use and construction of restroom facilities housed within the façade of the existing garage, and the installation of a storm drain on Eldorado and Encino Drive.

Motorized vehicles increased by \$2.9 million due to the purchase of city vehicles for the replacement of older vehicles and equipment that are replaced on a predetermined schedule. This included the purchase of twenty-three Ford Police Interceptor vehicles as well as a street sweeper. Increases also include additions from construction in progress due to the completion of two Pierce Arrow Pumps as well as one ambulance.

Additions to infrastructure totaled \$2.4 million. Of these additions, \$1.6 million came from the completion of various projects such as the Grape Street improvement project, improvements at the Daley Ranch House, and the installation of a storm drain on Eldorado and Encino Drive. An additional \$1.1 million of additions was due to developer contributions of signal lights and streets. These additions were offset by depreciation expense of \$4.8 million.

Machinery and equipment additions totaled \$886,000 due to the purchase of twenty-six EKG monitors for the Fire department. In addition, twenty-two mobile data computers used in fire engines and ambulances reached their useful life in the current fiscal year and were replaced.

Business-type Activities. Major capital asset events for business-type activities during the current fiscal year included the following:

Construction in progress increased by \$11.9 million due to several capital improvement projects. The largest increases to construction in progress was due ongoing projects located at the HAARF including rehabilitation and expansion of the existing Influent Pump Station at the wastewater treatment plant, a current year addition of \$6.1 million, as well as construction of a new plant operations building which will also house the wastewater collections staff.

Other additions to CIP include the Lake Wohlford Dam project which will investigate the potential for expansion of the capacity of the Lake Wohlford Reservoir; the Vista Verde Reservoir project which will replace an existing 0.75MG steel reservoir constructed in 1979 with two adequately sized to future needs; and a water line replacement on Bear Valley Parkway.

Developers contributed water and sewer lines of \$379,000 related to the completion of several projects including improvements for the new Walmart store which included a new water line, sidewalk improvements, landscaping, chain link fencing as well as a new traffic signal for the Harding Street extension project.

CITY OF ESCONDIDO
Management's Discussion and Analysis

City of Escondido's Capital Assets

(net of depreciation / in thousands)

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 45,906	\$ 46,483	\$ 2,868	\$ 1,801	\$ 48,774	\$ 48,284
Buildings and systems	93,421	95,916	6,506	7,089	99,927	103,005
Improvements other than buildings	18,623	18,755	775	760	19,398	19,515
Machinery and equipment	8,076	9,137	2,665	2,053	10,741	11,190
Infrastructure	110,901	113,217	207,015	213,700	317,916	326,917
Construction in progress	8,176	8,263	21,217	9,314	29,393	17,577
Total	\$ 285,103	\$ 291,771	\$ 241,046	\$ 234,717	\$ 526,149	\$ 526,488

Additional information on the City's capital assets can be found in the notes on pages 71-73 of this report.

Long-term debt. At the end of the current fiscal year, the City has total bonded debt outstanding of \$192,310,000. The City debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds or lease obligations).

City of Escondido's Outstanding Debt

Certificates, Lease Revenue and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Certificates of participation	\$ 645	\$ 1,240	\$ 55,225	\$ 57,340	\$ 55,870	\$ 58,580
Revenue bonds			57,850	58,635	57,850	58,635
Lease revenue bonds	4,625	4,830			4,625	4,830
GO bonds	73,965	75,665			73,965	75,665
Total	\$ 79,235	\$ 81,735	\$ 113,075	\$ 115,975	\$ 192,310	\$ 197,710

Changes to the City's outstanding debt during the current fiscal year are due to routine principal payments on amounts outstanding.

Additional information on the City's long-term debt can be found in the notes on pages 75-83 of this report.

CITY OF ESCONDIDO

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the City as of June 2014 was 6.4 percent, which is a decrease from a rate of 7.7 percent a year ago, and it continues to show a downward trend. Taxable sales increased from the previous year by about \$1.4 million or 4.7% but were under budget by about \$1.3 million. Sales tax was projected to grow by 8% due to the opening of new businesses such as the Walmart Store and Cheesecake Factory; however, actual growth was only 5%. Overall, the City's General Fund revenue was up 4.4% over the prior year.

The fiscal year 2014-15 General Fund operating budget has been balanced without relying on the use of reserves for the fourth year in a row. This is the result of an improving economy and the City Council's prudent fiscal policies. General Fund revenues were estimated to go up by 5.6% and expenditures were increased by 6.6% compared to the previous year. Although the City still faces challenges due to a fluctuating economy, there are certainly signs that it is proceeding in the right direction.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Escondido, Finance Department, 201 North Broadway, Escondido, CA 92025.





Basic Financial Statements

CITY OF ESCONDIDO
Statement of Net Position
June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total June 30, 2014	California Center for the Arts, Escondido Foundation June 30, 2014
<u>Assets</u>				
Cash and investments	\$ 67,566,256	\$ 54,199,902	\$ 121,766,158	\$ 1,555,673
Cash and investments with fiscal agent	673,137	57,823,934	58,497,071	
Receivables, net of allowances	72,162,814	12,234,425	84,397,239	115,406
Internal balances	(253,885)	253,885		
Due from other governments	7,796,336	241,574	8,037,910	
Inventory, at cost	454,863		454,863	23,348
Prepaid expenses	11,248		11,248	66,638
Deposits	367,688	6,800	374,488	
Prepaid expenses		12,267	12,267	
Prepaid bond insurance	202,430	231,721	434,151	
Land held for resale	3,089,552	104,573	3,194,125	
Assets held in charitable remainder				108,453
Capital assets:				
Not being depreciated	63,614,195	24,084,585	87,698,780	
Being depreciated, net	221,489,246	216,961,656	438,450,902	72,509
Total Assets	437,173,880	366,155,322	803,329,202	1,942,027
<u>Deferred outflows of resources</u>				
Deferred charges on refunding	54,526	2,715,557	2,770,083	
<u>Liabilities</u>				
Payables:				
Accounts	3,831,170	5,691,955	9,523,125	66,865
Retentions		150,445	150,445	
Interest	1,222,698	1,760,689	2,983,387	
Deposits	2,527,678	531,767	3,059,445	
Accrued expenses	2,279,005	266,126	2,545,131	96,003
Due to other governments	469,988		469,988	
Unearned revenue	387,579		387,579	327,295
Noncurrent liabilities:				
Payables due within one year:				
Employee leave benefits	725,585	111,234	836,819	79,806
Claims	2,910,112		2,910,112	
Loans	109,588	2,143,933	2,253,521	
Bonds	1,995,000	620,000	2,615,000	
Certificates of participation	645,000	2,200,000	2,845,000	
Payables due in more than one year:				
Connection rights		13,351,823	13,351,823	
Employee leave benefits	6,530,260	1,001,105	7,531,365	
Claims	11,640,447		11,640,447	
Loans	778,778	18,304,767	19,083,545	
Bonds, net	77,259,283	60,520,998	137,780,281	
Certificates of participation		53,136,319	53,136,319	
Total Liabilities	113,312,171	159,791,161	273,103,332	569,969

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Net Position (Continued)
June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total June 30, 2014	California Center for the Arts, Escondido Foundation June 30, 2014
<u>Net Position</u>				
Net investment in capital assets	207,003,751	151,539,613	358,543,364	79,806
Restricted for:				
Community services				
Expendable	2,302,472		2,302,472	
Nonexpendable	222,728		222,728	
Debt service	2,993,853		2,993,853	
Capital projects	1,829,815		1,829,815	
General government	2,281,299		2,281,299	
Low and moderate income housing	68,460,031		68,460,031	
Public safety	3,315,714		3,315,714	
Public works	10,950,668		10,950,668	
Unrestricted	24,555,904	57,540,105	82,096,009	1,292,252
Total Net Position	\$ 323,916,235	\$ 209,079,718	\$ 532,995,953	\$ 1,372,058

CITY OF ESCONDIDO
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 6,817,120	\$ 1,049,402	\$ 629,974	\$ 69,428
Public safety	64,735,010	8,217,629	3,450,379	123,869
Community services	13,824,749	4,104,210	4,182,963	176,044
Public works	22,830,644	1,554,453	4,767,861	2,962,560
Community development	4,442,510	1,351,882		
Interest and fiscal charges	3,709,135			
Total Governmental Activities	<u>116,359,168</u>	<u>16,277,576</u>	<u>13,031,177</u>	<u>3,331,901</u>
Business-type activities:				
Water	51,937,493	54,411,250		1,071,907
Wastewater	28,748,596	29,413,549	243,302	807,902
Total Business-type Activities	<u>80,686,089</u>	<u>83,824,799</u>	<u>243,302</u>	<u>1,879,809</u>
Total Primary Government	<u>\$ 197,045,257</u>	<u>\$ 100,102,375</u>	<u>\$ 13,274,479</u>	<u>\$ 5,211,710</u>
Component Unit:				
California Center for the Arts, Escondido Foundation	<u>\$ 8,726,399</u>	<u>\$ 2,594,774</u>	<u>\$ 5,511,574</u>	<u>\$</u>

General Revenues

Taxes:

Sales tax

Property tax

Property tax in lieu of sales tax

Property tax in lieu of VLF tax

Property transfer tax

Franchise tax

Franchise tax in lieu

Transient occupancy tax

Business license tax

Transfer station tax

Refuse collection tax

Intergovernmental, unrestricted

Investment and rental income

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See Accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total June 30, 2014	California Center for the Arts, Escondido Foundation June 30, 2014
\$ (5,068,316)	\$	\$ (5,068,316)	\$
(52,943,133)		(52,943,133)	
(5,361,532)		(5,361,532)	
(13,545,770)		(13,545,770)	
(3,090,628)		(3,090,628)	
(3,709,135)		(3,709,135)	
(83,718,514)		(83,718,514)	
	3,545,664	3,545,664	
	1,716,157	1,716,157	
	5,261,821	5,261,821	
(83,718,514)	5,261,821	(78,456,693)	
\$	\$	\$	\$ (620,051)
27,366,084		27,366,084	
16,805,289		16,805,289	
8,169,146		8,169,146	
10,668,256		10,668,256	
507,599		507,599	
4,694,252		4,694,252	
1,237,826		1,237,826	
1,322,016		1,322,016	
1,658,276		1,658,276	
648,068		648,068	
82,955		82,955	
62,583		62,583	244,520
4,091,316	1,577,693	5,669,009	82,503
892,851	161,086	1,053,937	106,732
125,000	(125,000)		
78,331,517	1,613,779	79,945,296	433,755
(5,386,997)	6,875,600	1,488,603	(186,296)
329,303,232	202,204,118	531,507,350	1,558,354
\$ 323,916,235	\$ 209,079,718	\$ 532,995,953	\$ 1,372,058

CITY OF ESCONDIDO
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>Special Revenue Successor Agency Housing</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and investments	\$ 17,263,978	\$ 1,267,541	\$ 27,614,824	\$ 46,146,343
Cash and investments with fiscal agent			673,137	673,137
Receivables (net):				
Accounts	4,101,035	2,778	315,079	4,418,892
Interest	73,018	5,806,225	3,457,102	9,336,345
Taxes	8,260,243		29,613	8,289,856
Loans	58,440	35,500,788	14,421,451	49,980,679
Loans to Successor Agency		3,399,292	974,044	4,373,336
Due from:				
Other funds	1,158,720			1,158,720
Other governments	227,534		3,195,466	3,423,000
Inventory, at cost			9,000	9,000
Prepaid expenditures			11,248	11,248
Deposits			55,088	55,088
Land held for resale, at cost		2,287,410	802,142	3,089,552
Advances to other funds	159,250		530,000	689,250
	<u>159,250</u>		<u>530,000</u>	<u>689,250</u>
Total Assets	<u>\$ 31,302,218</u>	<u>\$ 48,264,034</u>	<u>\$ 52,088,194</u>	<u>\$ 131,654,446</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Balance Sheet
Governmental Funds (Continued)
June 30, 2014

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities:				
Payables:				
Accounts	\$ 1,794,570	\$ 6,340	\$ 1,296,559	\$ 3,097,469
Deposits	554,598		1,973,080	2,527,678
Accrued expenditures	2,003,468	4,904	178,249	2,186,621
Due to other funds			1,158,720	1,158,720
Due to other governments			469,988	469,988
Unearned revenue			387,579	387,579
Advances from other funds	330,000		359,250	689,250
Total Liabilities	4,682,636	11,244	5,823,425	10,517,305
Deferred Inflows of Resources:				
Unavailable revenue	6,431,249	5,802,028	6,158,262	18,391,539
Fund Balances:				
Nonspendable	217,690			217,690
Restricted for		42,450,762	39,108,283	81,559,045
Committed to	17,319,659		2,008,525	19,328,184
Assigned to	897,465		139,653	1,037,118
Unassigned	1,753,519		(1,149,954)	603,565
Total Fund Balances	20,188,333	42,450,762	40,106,507	102,745,602
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 31,302,218</u>	<u>\$ 48,264,034</u>	<u>\$ 52,088,194</u>	<u>\$ 131,654,446</u>

See Accompanying Notes to Basic Financial Statements.



CITY OF ESCONDIDO
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2014

Fund balances for governmental funds	\$ 102,745,602
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets allocated from internal service funds are included in the internal service fund adjustment below.

Capital assets	\$ 563,930,148	
Ending accumulated depreciation	(285,901,945)	
		278,028,203

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	18,391,539
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Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The assets and liabilities of the internal service funds are included in the statement of net position.	12,849,012
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Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Noncurrent liabilities allocated from internal service funds are included in the internal service fund adjustment above.

Employee leave benefits	(7,088,356)	
Loans	(144,740)	
Bonds	(79,235,000)	
Bond premium	(673,440)	
Bond discount	9,157	
Loss on refunding	54,526	
Prepaid bond insurance	202,430	
		(86,875,423)

Interest on noncurrent liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Interest payable	(1,222,698)
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Net position of governmental activities	\$ <u><u>323,916,235</u></u>
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See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2014

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Sales tax	\$ 32,277,295	\$	\$	\$ 32,277,295
Other taxes	21,920,254		3,091,906	25,012,160
Licenses and permits	991,164			991,164
Fines and forfeits	1,184,292			1,184,292
Intergovernmental	13,703,132		10,005,457	23,708,589
Charges for services	7,500,560		5,013,025	12,513,585
Special assessments			5,796,337	5,796,337
Lease income		205,259		205,259
Investment income	156,253	272,247	467,326	895,826
Miscellaneous	3,329,114	41,640	895,225	4,265,979
Total Revenues	81,062,064	519,146	25,269,276	106,850,486
Expenditures:				
Current:				
General government	5,584,674		226,342	5,811,016
Public safety	56,166,466		1,707,555	57,874,021
Public works	9,813,633		5,375,707	15,189,340
Community services	6,234,010		5,894,494	12,128,504
Community development	2,979,712	724,378	534,104	4,238,194
Capital outlay			5,550,440	5,550,440
Debt service:				
Principal retirements	23,176		2,505,185	2,528,361
Interest and fiscal charges			3,737,237	3,737,237
Total Expenditures	80,801,671	724,378	25,531,064	107,057,113
Excess (Deficiency) of Revenues Over Expenditures	260,393	(205,232)	(261,788)	(206,627)

(Continued)

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds (Continued)
For the Year Ended June 30, 2014

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):				
Sale of capital assets	537,293	(250,753)	1,060,000	1,346,540
Transfers in	2,278,879	60,000	2,696,364	5,035,243
Transfers out	(3,830,037)		(2,904,706)	(6,734,743)
Total Other Financing Sources (Uses)	(1,013,865)	(190,753)	851,658	(352,960)
 Net Change in Fund Balance	 (753,472)	 (395,985)	 589,870	 (559,587)
 Fund Balances:				
Fund Balance at Beginning of Year	20,941,805	42,846,747	39,516,637	103,305,189
Fund Balances at End of Year	<u>\$ 20,188,333</u>	<u>\$ 42,450,762</u>	<u>\$ 40,106,507</u>	<u>\$ 102,745,602</u>

See Accompanying Notes to Basic Financial Statements.



CITY OF ESCONDIDO
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds: \$ (559,587)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays, contributed capital assets, retirements, and capital related expenditures exceeded depreciation in the current period. Capital asset activity from internal service funds are reported in the internal service activity below.

Capital outlay	\$ 5,381,293	
Contributed capital assets	1,102,418	
Depreciation	(12,780,065)	
Disposal of capital assets	(576,857)	
Capital assets contributed to business-type activities	(265,676)	
		(7,138,887)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,611,163

Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The assets and liabilities of the internal service funds are included in the statement of net assets. (1,617,913)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however, has any effect on net assets.

Change in employee leave benefits	(269,221)	
Principal retirements	2,528,361	
Accrued interest	59,087	
		2,318,227

Change in net assets of governmental activities \$ (5,386,997)

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Net Position
Proprietary Funds
June 30, 2014

	Water	Wastewater	Total	Internal Service Funds
<u>Assets</u>				
Current Assets:				
Cash and investments	\$ 17,091,277	\$ 37,108,625	\$ 54,199,902	\$ 21,419,914
Receivables (Net):				
Accounts	10,011,273	1,279,990	11,291,263	59,909
Interest	75,885	163,697	239,582	77,132
Loans		45,254	45,254	
Due from other governments		241,574	241,574	
Inventory				445,863
Prepaid expenses		12,267	12,267	
Deposits	6,800		6,800	312,600
Total Current Assets	<u>27,185,235</u>	<u>38,851,407</u>	<u>66,036,642</u>	<u>22,315,418</u>
Noncurrent assets:				
Receivables (Net):				
Loans		658,326	658,326	
Total Noncurrent Receivables		<u>658,326</u>	<u>658,326</u>	
Land held for resale	104,573		104,573	
Prepaid bond insurance	119,789	111,932	231,721	
Restricted:				
Cash and investments with fiscal agent	<u>27,196,575</u>	<u>30,627,359</u>	<u>57,823,934</u>	
Capital assets:				
Land	1,488,268	1,379,756	2,868,024	
Land improvements	626,162	337,125	963,287	
Buildings	14,849,333	9,631,885	24,481,218	1,553,865
Water system	122,968,161		122,968,161	
Electric system	3,609,179		3,609,179	
Recycled water system		24,163,391	24,163,391	
Sewer system		159,048,136	159,048,136	
Machinery and equipment	3,399,345	4,011,072	7,410,417	28,872,721
Construction in progress	6,698,921	14,517,640	21,216,561	12,397
Total Capital Assets	<u>153,639,369</u>	<u>213,089,005</u>	<u>366,728,374</u>	<u>30,438,983</u>
Less accumulated depreciation	<u>(55,539,098)</u>	<u>(70,143,035)</u>	<u>(125,682,133)</u>	<u>(23,363,745)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>98,100,271</u>	<u>142,945,970</u>	<u>241,046,241</u>	<u>7,075,238</u>
Total Noncurrent Assets	<u>125,521,208</u>	<u>174,343,587</u>	<u>299,864,795</u>	<u>7,075,238</u>
Total Assets	<u>152,706,443</u>	<u>213,194,994</u>	<u>365,901,437</u>	<u>29,390,656</u>
<u>Deferred outflows of resources</u>				
Deferred charge on refunding	<u>1,068,683</u>	<u>1,646,874</u>	<u>2,715,557</u>	

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Net Position
Proprietary Funds (Continued)
June 30, 2014

	Water	Wastewater	Total	Internal Service Funds
<u>Liabilities</u>				
Current Liabilities:				
Payables:				
Accounts	3,901,159	1,790,796	5,691,955	733,691
Revenue bonds	475,000	145,000	620,000	
Certificates of participation	550,000	1,650,000	2,200,000	
Loans	219,613	1,924,320	2,143,933	81,229
Retentions	29,386	121,059	150,445	
Accrued interest	898,586	862,103	1,760,689	
Employee leave benefits	38,149	73,085	111,234	16,750
Estimated claims				2,910,112
Accrued expenses	124,456	141,670	266,126	92,385
Total Current Liabilities	<u>6,236,349</u>	<u>6,708,033</u>	<u>12,944,382</u>	<u>3,834,167</u>
Noncurrent Liabilities:				
Payables:				
Revenue bonds	31,791,796	28,729,202	60,520,998	
Certificates of participation	27,226,877	25,909,442	53,136,319	
Connection rights payable	9,327,594	4,024,229	13,351,823	
Deposits	387,696	144,071	531,767	
Employee leave benefits	343,340	657,765	1,001,105	150,739
Estimated claims				11,640,447
Loans	3,464,849	14,839,918	18,304,767	662,397
Total Noncurrent Liabilities	<u>72,542,152</u>	<u>74,304,627</u>	<u>146,846,779</u>	<u>12,453,583</u>
Total Liabilities	<u>78,778,501</u>	<u>81,012,660</u>	<u>159,791,161</u>	<u>16,287,750</u>
<u>Net Position</u>				
Net investment in capital assets	53,429,589	98,110,024	151,539,613	7,075,238
Unrestricted	21,567,036	35,719,184	57,286,220	6,027,668
Total Net Position	<u>\$ 74,996,625</u>	<u>\$ 133,829,208</u>	<u>\$ 208,825,833</u>	<u>\$ 13,102,906</u>
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			<u>253,885</u>	
Net position of business-type activities			<u>\$ 209,079,718</u>	

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Water	Wastewater	Total	Internal Service Funds
Operating Revenues:				
Charges for services	\$ 53,920,870	\$ 29,413,549	\$ 83,334,419	\$ 25,747,849
Operating Expenses:				
Personnel services	7,278,175	8,332,836	15,611,011	4,225,296
Purchased water	24,283,807		24,283,807	
Administrative expenses	5,338,640	1,739,223	7,077,863	1,833,569
Benefit claims				2,117,752
Supplies	2,351,990	1,327,803	3,679,793	289,232
Repairs and maintenance	1,269,945	2,044,549	3,314,494	967,210
Depreciation	3,529,669	5,257,941	8,787,610	2,009,368
Utilities	2,514,393	2,199,439	4,713,832	1,208,246
Fuel				1,267,187
Professional services	1,005,355	3,498,002	4,503,357	5,356,508
Insurance premiums	424,415	315,855	740,270	10,395,665
Rent	310,536	319,436	629,972	1,284
Other	440,221	425,326	865,547	587,846
Total Operating Expenses	48,747,146	25,460,410	74,207,556	30,259,163
Operating Income	5,173,724	3,953,139	9,126,863	(4,511,314)
Nonoperating Revenues (Expenses):				
Investment income	220,284	430,783	651,067	151,839
Rents and concessions	845,134		845,134	
Interest and fiscal charges	(2,805,090)	(3,086,971)	(5,892,061)	(30,985)
Miscellaneous	632,174	364,069	996,243	189,595
Total Nonoperating Revenues (Expenses)	(1,107,498)	(2,292,119)	(3,399,617)	310,449
Income Before Transfers and Capital Contributions	4,066,226	1,661,020	5,727,246	(4,200,865)

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds (Continued)
For the Year Ended June 30, 2014

	Water	Wastewater	Total	Internal Service Funds
Transfers in				2,273,600
Transfers out		(125,000)	(125,000)	(449,100)
Total Transfers		(125,000)	(125,000)	1,824,500
Income Before Capital Contributions	4,066,226	1,536,020	5,602,246	(2,376,365)
Capital Contributions:				
Connection fees	490,380	764,266	1,254,646	
Developer contributions	562,199	42,981	605,180	171,989
Total Capital Contributions	1,052,579	807,247	1,859,826	171,989
Changes in Net Position	5,118,805	2,343,267	7,462,072	(2,204,376)
Net Position at Beginning of Year	69,877,820	131,485,941	201,363,761	15,307,282
Net Position at End of Year	\$ 74,996,625	\$ 133,829,208	\$ 208,825,833	\$ 13,102,906
Change in Net Position			\$ 7,462,072	
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			(586,472)	
Change in net assets of business-type activities			\$ 6,875,600	

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014

	Water	Wastewater	Totals	Internal Service Funds
Cash Flows from Operating Activities:				
Cash received from customers	\$ 53,652,829	\$ 29,640,313	\$ 83,293,142	\$ 25,755,351
Cash paid to employees for services	(7,396,494)	(8,218,353)	(15,614,847)	(6,068,785)
Cash paid to other suppliers of goods or services	(37,139,420)	(11,288,139)	(48,427,559)	(21,430,215)
Cash from rents and concessions	845,134		845,134	
Cash from other sources	606,703	387,101	993,804	69,419
Net Cash Provided by Operating Activities	<u>10,568,752</u>	<u>10,520,922</u>	<u>21,089,674</u>	<u>(1,674,230)</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from other funds				2,273,600
Cash paid to other funds		(125,000)	(125,000)	(449,100)
Net Cash Provided by Noncapital Financing Activities		<u>(125,000)</u>	<u>(125,000)</u>	<u>1,824,500</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase and construction of capital assets	(3,975,403)	(10,482,788)	(14,458,191)	(2,295,191)
Sale of capital assets				106,228
Payments on connection rights	(41,990)		(41,990)	
Cash received for connection fees	490,380	764,266	1,254,646	
Principal payments on certificates of participation	(1,175,000)	(1,725,000)	(2,900,000)	
Interest payments on certificates of participation	(2,739,001)	(2,587,198)	(5,326,199)	
Proceeds from loans				
Principal payments on loans	(214,210)	(1,922,536)	(2,136,746)	(78,200)
Interest payments on loans	(96,343)	(394,123)	(490,466)	(30,985)
Net Cash (Used for) Capital and Related Financing Activities	<u>(7,751,567)</u>	<u>(16,347,379)</u>	<u>(24,098,946)</u>	<u>(2,298,148)</u>
Cash Flows from Investing Activities:				
Advance to other fund		3,780,000	3,780,000	
Investment income received	220,465	533,216	753,681	174,357
Net Cash Provided by (Used for) Investing Activities	<u>220,465</u>	<u>4,313,216</u>	<u>4,533,681</u>	<u>174,357</u>
Net Increase in Cash and Cash Equivalents	3,037,650	(1,638,241)	1,399,409	(1,973,521)
Cash and Cash Equivalents at Beginning of Year	<u>41,250,202</u>	<u>69,374,225</u>	<u>110,624,427</u>	<u>23,393,435</u>
Cash and Cash Equivalents at End of Year	<u>\$ 44,287,852</u>	<u>\$ 67,735,984</u>	<u>\$ 112,023,836</u>	<u>\$ 21,419,914</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Cash Flows
Proprietary Funds (Continued)
For the Year Ended June 30, 2014

	Water	Wastewater	Totals	Internal Service Funds
Reconciliation of Cash Equivalents to the statement of net assets:				
Cash and investments	\$ 17,091,277	\$ 37,108,625	\$ 54,199,902	\$ 21,419,912
Restricted assets	27,196,575	30,627,359	57,823,934	
Cash and Cash Equivalents at the End of Year	<u>\$ 44,287,852</u>	<u>\$ 67,735,984</u>	<u>\$ 112,023,836</u>	<u>\$ 21,419,914</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	<u>\$ 5,173,724</u>	<u>\$ 3,953,139</u>	<u>\$ 9,126,863</u>	<u>\$ (4,511,314)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation expense	3,529,669	5,257,941	8,787,610	2,009,368
Cash from rents and concessions	845,134		845,134	
Cash from other sources	605,095	334,397	939,492	69,419
Change in Assets and Liabilities:				
(Increase) decrease in accounts receivable	(281,870)	471,651	189,781	7,502
(Increase) decrease in due from other governments		(241,574)	(241,574)	
(Increase) decrease in inventories				(23,395)
(Increase) decrease in prepaid expenses		(3,313)	(3,313)	
(Increase) decrease in deposits	(6,800)		(6,800)	
(Increase) decrease in loans receivable	1,608	52,704	54,312	
Increase (decrease) in accounts payable	799,882	581,494	1,381,376	69,608
Increase (decrease) in accrued expenses	14,035	34,732	48,767	(21,832)
Increase (decrease) in employee leave benefits payable	(132,354)	79,751	(52,603)	11,912
Increase in customer deposits	20,629		20,629	
(Decrease) in estimated claims payable				714,502
Total Adjustments	<u>5,395,028</u>	<u>6,567,783</u>	<u>11,962,811</u>	<u>2,837,084</u>
Net Cash Provided by Operating Activities	<u>\$ 10,568,752</u>	<u>\$ 10,520,922</u>	<u>\$ 21,089,674</u>	<u>\$ (1,674,230)</u>
Noncash Investing, Capital and Financing Activities:				
Contributed property, plant and equipment	\$ 562,199	\$ 42,981	\$ 605,180	\$ 171,989
Bond amortization	517	84,149	84,666	

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Agency Funds	Private Purpose Trust Fund Successor Agency of the Former CDC
<u>Assets</u>		
Cash and investments	\$ 7,206,446	\$ 8,445,820
Restricted:		
Cash and investments with fiscal agent	1,904,189	
Receivables:		
Interest	10,985	12,493
Taxes	1,868	
Loans		2,741,651
Deferred bond issuance costs		142,843
Due from other governments		469,988
Capital assets:		
Not being depreciated		6,074,290
Being depreciated, net		32,119,799
Total Assets	<u>\$ 9,123,488</u>	<u>50,006,884</u>
<u>Deferred outflow of resources</u>		
Deferred charges on refunding		<u>183,262</u>
<u>Liabilities</u>		
Accounts payable	\$ 267,609	4,372
Deposits payable	5,376,392	
Due to bondholders	3,479,487	
Interest payable		1,386,088
Long-term liabilities:		
Due in one year		5,785,000
Due in more than one year		35,027,519
Total Liabilities	<u>\$ 9,123,488</u>	<u>42,202,979</u>
<u>Net Position</u>		
Held in trust for other purposes		<u>7,987,167</u>
Total Net Position		<u>\$ 7,987,167</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

	Private Purpose Trust Fund
	Successor Agency of the Former CDC
<u>Additions</u>	
Taxes	\$ 8,466,135
Interest and change in fair value of investments	25,902
Contributions from other governments	3,132,320
Total Additions	11,624,357
<u>Deductions</u>	
Administrative expenses	293,650
Residual payment	
Interest expense	1,721,879
Depreciation expense	2,736,015
Total Deductions	4,751,544
Changes in Net Position	6,872,813
Net Position - Beginning of the Year	1,114,354
Net Position - End of the Year	\$ 7,987,167

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements
June 30, 2014

1: Summary of Significant Accounting Policies

A. Reporting Entity

The City of Escondido (City) was incorporated in 1888 and operates under a Council/Manager form of government. The Council is composed of five members. As required by generally accepted accounting principles, the financial statements present the government and its component units for which the government is considered financially accountable. The component units discussed below are included in the reporting entity because of their operational or financial relationships with the City.

Blended Component Units

The following blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit as described below has a June 30 year end.

Escondido Vehicle Parking District

The Escondido Vehicle Parking District (District) was established in 1962 for the purpose of acquiring and improving parking lots in Escondido. The City Council acts as the District's governing board and exerts significant influence over its operations. The funds of the District have been included in the governmental activities of the financial statements. Separate financial statements are not prepared for this blended component unit.

Escondido Joint Powers Financing Authority

The City and Commission formed the Escondido Joint Powers Financing Authority (Authority). The Authority was established in 1991 for the purpose of providing for the financing of public capital improvements for the Members through the issuance of bonds by the Authority and the leasing of the public capital improvements to the members and/or the acquisition of obligations pursuant to which public capital improvements are financed by or for the benefit of the members.

The City Council acts as the Authority's governing board and exerts significant influence over its operations. The funds of the Authority have been included in the governmental activities of the financial statements. Separate financial statements are not prepared for this blended component unit.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units

California Center for the Arts, Escondido Foundation

The California Center for the Arts, Escondido Foundation (Foundation) was established in 1988 as a nonprofit public benefit corporation to provide a variety of visual and performing arts events, to encourage other cultural activities, and to provide a venue for local events and presentations. The Foundation has a separate governing board. It is included as a discretely presented component unit because the Foundation is financially dependent on the City for its management fee, facility and additional funding as needed based on annual operations. Separate financial statements of the Foundation can be obtained at:

California Center for the Arts, Escondido Foundation
340 North Escondido Boulevard
Escondido, California 92025

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the 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. Fiduciary funds have no measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are not recognized until paid.

Property taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures not paid through other funds are paid from this fund.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

The Successor Agency Housing Special Revenue Fund was established to account for the housing activities of the dissolved Community Development Commission. The Successor Agency provides the resources for the activities of this fund that were approved by the California Department of Finance on the Successor Agency ROPS schedules. Other resources are received through loan repayments.

The City reports the following major proprietary funds:

The Water Enterprise Fund is used to account for the financial activity of the City's water utility. The costs of providing these services to the general public are financed or recovered primarily through user charges.

The Wastewater Enterprise Fund is used to account for the financial activity of the City's sewer utility. The costs of providing these services to the general public are financed or recovered primarily through user charges.

Additionally, the City reports the following non-major fund types:

Governmental Funds

The Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

The Debt Service Funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

The Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

The Permanent Funds are used to account for resources that are legally restricted, to the extent that only earnings and not principal, may be used for purposes that support the City's programs.

Proprietary Funds

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. Currently both enterprise funds of the City are reported as major funds.

The Internal Service Funds are utilized to finance and account for activities involved in rendering services to departments within the City. Costs of services are accumulated in these funds and charged to user departments as such costs are incurred. Services provided by these funds include insurance, building maintenance, equipment maintenance and central services.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

Fiduciary Funds

Fiduciary Fund financial statements include a statement of net position and statement of changes in fiduciary net position. The City's fiduciary funds include agency and private-purpose trust funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, and therefore, do not have a measurement focus. Private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The City reports the following fiduciary funds which are excluded from the government-wide financial statements:

The Agency Funds are used to account for money and property held by the City as trustee or custodian. These funds include refundable deposits and also account for the collection of special assessments levied on various assessment districts for the payment of debt service on no commitment debt.

The Private-Purpose Trust Fund accounts for the assets and liabilities of the former Commission and is allocated revenue to pay estimated installment payments of enforceable obligations until obligations of the former Commission are paid in full and assets have been liquidated.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to members, customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Enterprise Fund, the Wastewater Enterprise Fund, and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equities

Cash and Investments

Investments are reported in the accompanying financial statements at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income, earned by the pooled investments, is allocated to the various funds based on each fund's average cash and investment balance.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. Cash invested in the City's cash management pool is also considered to be cash equivalents.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The amounts recorded as a receivable due from other governments include amounts collected or provided by Federal, State and County governments and not remitted to the City as of June 30, 2014.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of San Diego (County) bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax value base no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

Inventories

Inventories within the various fund types consist of fuel, supplies and equipment valued at cost, which approximates market, on the first-in, first-out basis. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Land Held for Resale

Land held for resale is valued at lower of cost or market. The reported amount is equally offset by nonspendable fund balance, which indicates that it does not constitute available spendable resources. The land held for resale primarily consists of lots in two mobile home parks that the City owns and is holding until sold. It is anticipated that these lots could take several years to sell.

Cash and Investments with Fiscal Agents

The City has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions and indentures are generally more restrictive than the City's investment policy.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The City utilizes a capitalization threshold of \$5,000 - \$10,000 depending on asset type.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	5-40 years
Buildings	30-40 years
Machinery and equipment	5-30 years
Motorized vehicles	5-15 years
Infrastructure	30-50 years
Golf course	30 years
Water system	40 years
Electrical system	40 years
Sewer system	40 years
Recycled water system	40 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Employee Leave Benefits

Depending upon length of employment, City employees earn 12 to 27 vacation days a year. Sick leave is accrued at the rate of 12 days per year except for Fire Safety which earns six twenty-four hour shifts. Employees can carry forward to subsequent years two to three years worth of earned but unused vacation leave benefits depending on employee group. Upon termination, the City is obligated to compensate employees for all earned but unused vacation days. The earned but unused sick leave benefits are not payable in the event of employee termination. These benefits are considered to be contingent liabilities subject to the continuation of the employee relationship. Such sick leave benefits are therefore not recorded as liabilities in the accompanying financial statements.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

In the government-wide financial statements, a liability is accrued for all earned but unused vacation leave benefits relating to the operations of the funds. This liability will be liquidated as either additional cash payments in the event of employee termination or as part of budgeted salary expenditures if used by employees as compensated leave time while still employed by the City. In the fund financial statements, governmental funds accrue current liabilities for material vacation leave benefits due on demand to governmental fund employees that have terminated prior to year-end. Non-current amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as gains or losses on refunding, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Gains or losses on bond refunding are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Debt issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Claims and Judgments

The City records a liability for litigation, judgments and claims when it is probable that an asset has been impaired or a liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the internal service funds, which account for the City's self-insurance activities.

Fund Equity

In the fund financial statements, governmental funds report the following fund balance classification:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

1: Summary of Significant Accounting Policies (Continued)

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest authority, City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is Council resolution.

Assigned include amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. The Administrative Services Director is authorized to assign amounts to a specific purpose, which was established by the governing body by resolution.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

Included in the General Fund’s committed fund balance, the City Council has approved an emergency reserve stabilization arrangement to be used for one-time unanticipated expenditure requirements and local disasters. At June 30, 2014, the balance totaled \$17,319,659.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted amounts to be used first, then unrestricted. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, they are considered to be spent in the order as follows: committed, assigned and then unassigned.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenue and expenses during the reporting period. Actual results could differ from those estimates.

2: Stewardship, Compliance and Accountability

Excess of Expenditures Over Appropriations

The following individual fund exceeded its expenditures budget:

Fund	Type of Fund	Amount Over Budget
HOME	Special Revenue	\$ 50,603
Golf Course	Debt Service	157

These expenditures were funded with a combination of excess revenues over expenditures during the current fiscal year and by the available fund balance.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

2: Stewardship, Compliance and Accountability (Continued)

Deficit Fund Equity

The following funds reported a deficit fund balance as of June 30, 2014:

Fund	Deficit
Community Development Block Grant	\$ 252,431
Law Enforcement	261,652
Vehicle Parking District	624,380

The following funds reported a deficit net position as of June 30, 2014:

Fund	Deficit
Workers' Compensation	\$ 1,713,673
General Liability Self-Insurance	1,713,762

These deficits are expected to be eliminated with future revenues from reimbursements and transfers.

3: Cash and Investments

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Governmental Activities	
Cash and investments	\$ 67,566,256
Cash and investments held by fiscal agent	673,137
Business-type Activities	
Cash and investments	54,199,902
Cash and investments held by fiscal agent	57,823,934
Component Unit	
Cash and investments	1,555,673
Fiduciary Funds:	
Cash and investments	15,652,266
Cash and investments held by fiscal agent	1,904,189
Total cash and investments	\$ 199,375,357

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

3: Cash and Investments (Continued)

Cash and investments as of June 30, 2014, consist of the following:

Cash on hand	\$	16,721
Deposits with financial institutions		9,760,523
Investments		189,598,113
Total cash and investments	\$	199,375,357

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee (i.e. fiscal agent) that are governed by the provisions of debt agreements of the City rather than the general provisions of the California Government Code or the City's investment policy. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

Investment types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptance	Yes	180 days	20%	10%
Commercial Paper	Yes	180 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	30%	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County pooled Investment Funds	Yes	N/A	30%	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	30%	None

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

3: Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee (i.e. fiscal agent) are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are generally authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>*Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	365 days	None	None
Banker's Acceptance	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	None	None	None
Investment Contracts	30 years	None	None
State or Municipal Obligations	None	None	None
State Pooled Investment Fund	None	None	None

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

3: Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Maturity (in Months)			
	Total	18 Months or Less	18 to 42 Months	42 to 60 Months
U.S. Treasury Notes	\$ 3,518,800	\$ 3,518,800	\$	\$
Federal Agency Securities	87,509,416	27,315,890	44,816,469	15,377,057
Money Market Funds	10,925,784	10,925,784		
Negotiable Certificates of Deposit	2,980,479	1,242,212	988,850	749,417
State Investment Pool (LAIF)	24,262,374	24,262,374		
Subtotal	129,196,853	67,265,060	45,805,319	16,126,474
Held by fiscal agent:				
Federal Agency Securities	5,403,585	5,403,585		
Money Market Funds	9,984,231	9,984,231		
State Investment Pool (LAIF)	45,013,444	45,013,444		
Subtotal	60,401,260	60,401,260		
Total	\$ 189,598,113	\$ 127,666,320	\$ 45,805,319	\$ 16,126,474

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of yearend for each investment type.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

3: Cash and Investments (Continued)

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AA+	Not Rated
U.S. Treasury Notes	\$ 3,518,800	N/A	\$ 3,518,800	\$	\$
Federal Agency Securities	87,509,416	N/A		87,509,416	
Money Market Funds	10,925,784	N/A	10,925,784		
Negotiable Certificates of Deposit	2,980,479				2,980,479
State Investment Pool (LAIF)	24,262,374	N/A			24,262,374
Held by fiscal agent:					
Federal Agency Securities	5,403,585	N/A		5,403,585	
Money Market Funds	9,984,231	N/A			9,984,231
State Investment Pool (LAIF)	45,013,444	N/A			45,013,444
Total	\$ 189,598,113		\$ 14,444,584	\$ 92,913,001	\$ 82,240,528

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal National Mortgage Association	Federal agency securities	\$ 27,799,719
Federal Home Loan Bank	Federal agency securities	28,079,383
Federal Home Loan Mortgage Corp.	Federal agency securities	26,027,720
Federal Farm Credit Bank	Federal agency securities	11,006,179

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2014, all of the City's deposits in excess of the federal depository insurance limit were held

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

3: Cash and Investments (Continued)

in collateralized accounts. For investments identified herein as held by bond trustee, the bond trustee provides the City with investment options that are authorized under the terms of the applicable trust agreement, acquires the investment as directed, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

4: Receivables and Allowances for Uncollectible Receivables

All receivables are shown net of an allowance for uncollectibles which at June 30, 2014 is as follows:

Fund	Allowance Amount
General Fund	\$ 1,816,564
Water Enterprise Fund	35,108

The General Fund allowance is mainly for paramedic and DUI cost recovery activities.

5: Loans Receivable

The City and Housing Successor Agency engage in programs designed to encourage construction and improvement in low-to-moderate income housing and other projects. Under these programs, loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's or Housing Successor Agency's terms.

At June 30, 2014, the loans receivable was reported in the governmental and proprietary fund types as follows:

Governmental Funds	\$ 54,354,015
Proprietary Funds	703,580
Total loans receivable	\$ 55,057,595

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

5: Loans Receivable (Continued)

The loans at June 30, 2014, consisted of the following:

City of Escondido	
HOME grant fund loans	\$ 13,910,296
National Golf Operations	259,297
Successor Agency loan	974,044
Various loans	310,298
Successor Agency Housing Special Revenue Fund	
Loans given to developers and non-profits	28,036,370
Mobile home loan program	3,284,297
First-time homebuyer program	3,665,121
Successor Agency loan	3,399,292
HOME loans	<u>515,000</u>
Total loans receivable	<u><u>\$ 54,354,015</u></u>

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

6: Capital Assets

A summary of changes in capital asset activity for the City's governmental and business type activities for the year ended June 30, 2014, is as follows:

Governmental-Activities:

	Balance at July 1, 2013	Transfers of CIP	Contributions Between Funds	Additions	Deletions	Balance at June 30, 2014
Capital assets, not being depreciated:						
Art and historical treasures	\$ 9,532,194	\$	\$	\$	\$	\$ 9,532,194
Land	46,482,981				576,857	45,906,124
Construction in progress	8,263,440	(4,773,957)		4,686,394		8,175,877
Total capital assets, not being depreciated	<u>64,278,615</u>	<u>(4,773,957)</u>		<u>4,686,394</u>	<u>576,857</u>	<u>63,614,195</u>
Capital assets, being depreciated:						
Land improvements	36,248,863	505,030				36,753,893
Buildings	135,682,521	1,079,934				136,762,455
Machinery and equipment	29,135,617	281,041	68,598	1,259,330	722,360	30,022,226
Motorized vehicles	17,667,577	1,305,884		1,853,744	247,809	20,579,396
Infrastructure	299,876,964	1,602,068	(225,738)	1,056,836		302,310,130
Golf course	4,326,835					4,326,835
Total capital assets, being depreciated	<u>522,938,377</u>	<u>4,773,957</u>	<u>(157,140)</u>	<u>4,169,910</u>	<u>970,169</u>	<u>530,754,935</u>
Less accumulated depreciation for:						
Land improvements	27,025,750			3,281,452		30,307,202
Buildings	39,766,586			3,574,422		43,341,008
Machinery and equipment	26,781,749			1,290,673	722,361	27,350,061
Motorized vehicles	13,674,870			1,747,998	247,808	15,175,060
Infrastructure	186,659,898			4,750,616		191,410,514
Golf course	1,537,572			144,272		1,681,844
Total accumulated depreciation	<u>295,446,425</u>			<u>14,789,433</u>	<u>970,169</u>	<u>309,265,689</u>
Total capital assets being depreciated, net	<u>227,491,952</u>	<u>4,773,957</u>	<u>(157,140)</u>	<u>(10,619,523)</u>		<u>221,489,246</u>
Governmental activities capital assets, net	<u>\$ 291,770,567</u>	<u>\$</u>	<u>\$ (157,140)</u>	<u>\$ (5,933,129)</u>	<u>\$ 576,857</u>	<u>\$ 285,103,441</u>

Construction in progress in the governmental activities consists primarily of additions to infrastructure, parks, and the design of the library expansion project.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

6: Capital Assets (Continued)

Business-type Activities:

	Balance at July 1, 2013	Transfers of CIP	Contributions Between Funds	Additions	Deletions	Balance at June 30, 2014
Capital assets not being depreciated:						
Land	\$ 1,800,524	\$ 1,067,500	\$	\$	\$	\$ 2,868,024
Construction in progress	9,314,075	(2,636,966)		14,539,452		21,216,561
Total Capital Assets Not being Depreciated	11,114,599	(1,569,466)		14,539,452		24,084,585
Capital assets being depreciated:						
Land improvements	946,475	138,080			121,268	963,287
Buildings	24,481,218					24,481,218
Machinery and equipment	6,213,179	1,157,231	(68,597)	131,849	23,245	7,410,417
Water system	122,171,624	234,338	189,587	372,612		122,968,161
Electrical system	3,609,179					3,609,179
Sewer system	158,965,338	39,817	36,150	6,831		159,048,136
Recycled water system	24,163,391					24,163,391
Total capital assets being depreciated	340,550,404	1,569,466	157,140	511,292	144,513	342,643,789
Less accumulated depreciation for:						
Land improvements	186,202			31,804	30,319	187,687
Buildings	17,391,625			583,016		17,974,641
Machinery and equipment	4,159,980			608,651	23,245	4,745,386
Water system	34,641,276			2,976,843		37,618,119
Electrical system	3,038,832			49,270		3,088,102
Sewer system	51,951,748			3,931,143		55,882,891
Recycled water system	5,578,424			606,883		6,185,307
Total accumulated depreciation	116,948,087			8,787,610	53,564	125,682,133
Total capital assets, being depreciated, net	223,602,317	1,569,466	157,140	(8,276,318)	90,949	216,961,656
Business-type activities capital assets, net	<u>\$ 234,716,916</u>	<u>\$</u>	<u>\$ 157,140</u>	<u>\$ 6,263,134</u>	<u>\$ 90,949</u>	<u>\$ 241,046,241</u>

Business-type construction in progress consists primarily of expansion of the wastewater treatment plant, construction of a reclamation distribution system and water and sewer line installation projects.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

6: Capital Assets (Continued)

Component Unit:

	Balance at July 1, 2013	Adjustments*	Additions	Deletions	Balance at June 30, 2014
Capital assets being depreciated:					
Leasehold improvements	\$ 1,989	\$	\$	\$	\$ 1,989
Machinery and equipment	640,551	74,890	74,648	12,104	777,985
Total capital assets being depreciated	642,540	74,890	74,648	12,104	779,974
Less accumulated depreciation for:					
Leasehold improvements	1,989				1,989
Machinery and equipment	626,389	74,890	16,301	12,104	705,476
Total accumulated depreciation	628,378	74,890	16,301	12,104	707,465
Total capital assets, being depreciated, net	14,162		58,347		72,509
Component unit capital assets, net	\$ 14,162	\$	\$ 58,347	\$	\$ 72,509

* During the year, the Foundation performed a physical inventory and determined that \$74,890 of equipment was in the possession of the Foundation but not recorded as a capital asset.

Depreciation Expense:

Depreciation expense was charged to the following functions:

	Governmental Activities	Business Type- Activities	Component Unit
General Government	\$ 909,900	\$	\$
Public Safety	3,778,946		
Public Works	6,868,714		
Community Services	1,110,553		
Community Development	111,952		
Water		3,529,669	
Wastewater		5,257,941	
Capital Assets held by governments internal service funds are charged to the various functions based on their usage of the assets	2,009,368		
California Center for the Arts, Escondido Foundation			16,301
	\$ 14,789,433	\$ 8,787,610	\$ 16,301

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

7: Interfund Receivable, Payable and Transfers

Due to/from other funds

	Due To Other Funds	
	Nonmajor Governmental Funds	Totals
<u>Due from other Funds</u>		
General Fund	\$ 1,158,720	\$ 1,158,720
Total	\$ 1,158,720	\$ 1,158,720

The \$1,158,720 due from Nonmajor Governmental Funds to the General Fund are short term borrowings due to negative cash balances at the end of this fiscal year.

Advances to/from other funds

	Advances From:		
	General Fund	Nonmajor Governmental Fund	Total
<u>Advance To:</u>			
General Fund	\$	\$ 159,250	\$ 159,250
Nonmajor Governmental Funds	330,000	200,000	530,000
Total	\$ 330,000	\$ 359,250	\$ 689,250

The advances were primarily used for the following:

The Escondido Vehicle Parking District entered into agreements with the General Fund for the purchase of the downtown parking lots. The outstanding balance was \$159,250 at June 30, 2014.

The Public Facilities Capital Project fund entered into an agreement with the General Fund for an advance to reconstruct Fire Station #4. At June 30, 2014, the amount of \$330,000 remained outstanding.

The Parks and Recreation Special Revenue fund entered into an agreement with the Street Improvement Capital Projects fund in the amount of \$200,000.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

7: Interfund Receivable, Payable and Transfers (Continued)

Interfund Transfers

Transfer Out:	Transfers In:				Total
	General Fund	Successor Agency Housing	Nonmajor Governmental	Internal Service	
General Fund	\$	\$	\$ 1,679,037	\$ 2,151,000	\$ 3,830,037
Nonmajor Governmental	2,154,779	60,000	667,327	22,600	2,904,706
Internal Service Funds	99,100		350,000		449,100
Enterprise:					
Wastewater	25,000			100,000	125,000
Total	\$ 2,278,879	\$ 60,000	\$ 2,696,364	\$ 2,273,600	\$ 7,308,843

Transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8: Long-Term Liabilities

Changes in long-term liabilities for Governmental Activities as of June 30, 2014, are as follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Due Within One Year	Due Beyond One Year
Employee Leave Benefits Payable	\$ 6,974,713	\$ 5,747,490	\$ 5,466,358	\$ 7,255,845	\$ 725,585	\$ 6,530,260
Claims Payable	13,836,057	4,563,880	3,849,378	14,550,559	2,910,112	11,640,447
Loans Payable	994,925		106,559	888,366	109,588	778,778
1993 Taxable Certificates of Participation	1,240,000		595,000	645,000	645,000	
2006 Public Safety Facilities GO Bonds	75,665,000		1,700,000	73,965,000	1,785,000	72,180,000
2013A Lease Revenue Bonds	4,830,000		205,000	4,625,000	210,000	4,415,000
Total	\$ 103,540,695	\$ 10,311,370	\$ 11,922,295	101,929,770	\$ 6,385,285	\$ 95,544,485
Unamortized Bond Premium				673,440		
Unamortized Bond Discount				(9,157)		
Total				\$ 102,594,053		

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1. The balance at June 30, 2014, is \$7,255,845. This liability will be paid in future years from future resources primarily from the General Fund.

Claims Payable

The balance of claims payable at June 30, 2014, is \$14,550,559. For more information, see Note 10.

Loans Payable

In 2004, the City was granted an energy conservation loan from the California Energy Commission to fund various energy conservation projects. The term of the loan is 15 years with an annual interest rate of 3.95%. The outstanding balance at June 30, 2014, is \$727,227.

In 2011, the City was granted a loan from the San Diego Gas and Electric Company to fund various energy conservation projects. The term of the loan is 8 years of monthly installment payments which accrue no interest. The outstanding balance at June 30, 2014, is \$161,139.

Certificates of Participation

In December 1993, the City of Escondido issued \$6,775,000 taxable Certificates of Participation to provide financing for the construction of an 18-hole golf course. The principal is due annually in amounts ranging from \$160,000 to \$645,000 on September 1 of each year commencing with 1995 through the year 2014. Interest is payable semiannually on March 1 and September 1 of each year commencing September 1, 1994, at rates ranging from 5.5% to 8.4%. The reserves are fully funded. The outstanding balance at June 30, 2014, is \$645,000.

General Obligation Bonds

On August 1, 2006, the City issued General Obligation Bonds, election of 2004, Series A amounting to \$84,350,000 to construct, upgrade, and acquire land for City fire stations, an emergency response training center, and a combined police and fire headquarters facility. The bonds mature serially on September 1, beginning 2007 through 2036 in amounts ranging from \$1,170,000 to \$5,225,000 and pay interest at rates varying from 3.55% to 4.75%. Interest is payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2007. No reserve fund is required. The outstanding balance at June 30, 2014, is \$73,965,000. Unamortized bond premium is \$673,440 at June 30, 2014.

Lease Revenue Bonds

In March 2013, the City of Escondido issued \$4,830,000 in Lease Revenue Bonds to currently refund the outstanding Escondido Joint Powers Financing Authority 2001 Lease Revenue Bonds and to pay the costs incurred in connection with the issuance of the Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A. The principal is due annually on October 1 in amounts ranging from \$205,000 to 355,000, commencing 2013 and ending 2030. Interest is payable semi-annually on April 1 and October 1 of each year commencing October 1, 2013, at rates ranging from 2.00% to 4.00%. At June 30, 2014, the outstanding balance of these bonds was \$4,625,000. Unamortized bond discount was \$9,157 at June 30, 2014.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

Debt Service Requirements to Maturity - Governmental Activities

The annual requirements to amortize outstanding long-term debt of the City's Governmental Activities through maturity, excluding amounts for employee leave benefits payable, claims payable and certain loans payable are as follows (expressed in thousands of dollars):

Year Ending June 30	Certificates of Participation		Lease Revenue Bonds		General Obligation Bonds		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 645	\$ 27	\$ 210	\$ 149	\$ 1,785	\$ 3,418	\$ 110	\$ 24
2016			215	145	1,875	3,326	113	21
2017			220	140	1,970	3,230	116	18
2018			230	133	2,065	3,140	118	14
2019			235	126	2,170	3,054	110	15
2020-2024			1,295	516	12,595	13,543	321	21
2025-2029			1,525	283	16,070	10,248		
2030-2034			695	28	20,500	6,072		
2035-2038					14,935	1,087		
Total Debt Service Payments	\$ 645	\$ 27	\$ 4,625	\$ 1,520	\$ 73,965	\$ 47,118	\$ 888	\$ 113

Changes in long-term liabilities for Business-type Activities as of June 30, 2014, are as follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Due Within One Year	Due Beyond One Year
Connection rights payable	\$ 13,393,813	\$	\$ 41,990	\$ 13,351,823	\$	\$ 13,351,823
Employee leave benefits payable	1,164,942	764,210	816,813	1,112,339	111,234	1,001,105
2007 Water Revenue COP	28,115,000		530,000	27,585,000	550,000	27,035,000
2012 Water Revenue Revenue Bond	31,375,000		645,000	30,730,000	475,000	30,255,000
2004A Wastewater COP	21,060,000		1,140,000	19,920,000	1,180,000	18,740,000
2004B Wastewater COP	8,165,000		445,000	7,720,000	470,000	7,250,000
2012 Wastewater Revenue Bond	27,260,000		140,000	27,120,000	145,000	26,975,000
Loans payable	22,585,446		2,136,746	20,448,700	2,143,933	18,304,767
Total	\$ 153,119,201	\$ 764,210	\$ 5,895,549	147,987,862	\$ 5,075,167	\$ 142,912,695
Less:						
Unamortized bond premium				3,482,875		
Unamortized bond discount				(80,558)		
Total				\$ 151,390,179		

Connection Rights Payable

In 1982, the City raised funds for water and sewer improvements by selling in advance rights to connect to the utility system. The holders of those rights could sell or transfer those rights to others. The value of the rights resulted from the ability of the holder to redeem the rights to the City in order

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

to connect to the system. The amounts collected represent connection fees collected in advance of the connection. The amounts collected are recorded as a liability until earned at the time of connection.

The purchase price for sewer connection rights sold was \$1,500 per right. Per the contract, the rights increased in value at 10% per year until May 31, 2007. As of that date, a sewer right was valued at \$21,872. The purchase price for water connection rights sold was \$900 per right. Per the contract, the rights increased in value at 10% per year until July 1, 1993. At that time, each right was valued at \$3,230.

There was no limit to the number of rights purchased under a contract or the number of contracts an individual might purchase. Both contracts allowed several options to the purchaser. These options were: 1) The rights could be used by the purchaser at the time of pulling building permits, thus waiving the current fee being charged by the Building Department; 2) if the owner of the rights sold the property for which the rights were originally purchased, the rights could be transferred to the new owner; 3) the last option was to turn in the right to the City of Escondido for the purpose of resale on a "first come, first served" basis. Resales are determined monthly and paid based on receipts from current connection fees on building permits.

Interest on connection rights represents the increase in the obligation of the City to the holders of the rights as a result of rates of increase stipulated in the City's agreement with the holders of the rights. The balance at June 30, 2014, is \$13,351,823.

Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1 of the Notes to Financial Statements. This liability will be paid in future years from future resources. The balance at June 30, 2014, is \$1,112,339

Revenue Certificates of Participation

In September 2007, the City issued \$30,440,000 in Revenue Certificates of Participation to finance certain capital projects and to advance refund \$12,450,000 of outstanding Revenue Certificates of Participation, series 2000A, which were originally issued to finance the cost of construction of certain replacements to water lines and other capital improvements to the water system. The principal is due annually on September 1 in amounts ranging from \$430,000 to \$990,000, commencing 2008 and ending 2025 with interest at rates varying from 3.5% to 4.375%. In addition, \$5,775,000 and \$13,325,000 term certificates are due September 1, 2030 and September 2037, respectively.

The \$5,775,000 term certificates pay interest at 5.0% and the \$13,325,000 term certificates pay interest at 4.75%. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on March 1, 2008. The certificates maturing on or after September 1, 2018, are subject to optional prepayment prior to their respective maturities, as a whole or in part on any date in the order of maturity as directed by the City in a Written Request provided to the Trustee at least 45 days prior to the prepayment date and by lot within each maturity in integral multiples of \$5,000, on or after September 1, 2007, from amounts prepaid by the City pursuant to the Installment Purchase Agreement at a Prepayment Price equal to 100% of the principal amount of such Certificates to be prepaid. Additionally, the term certificates maturing on September 1, 2030 and 2037 are subject to mandatory prepayment in part (by lot) on each September 1 on and after September 1, 2026 and 2031,

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

respectively, in integral multiple of \$5,000 at a prepayment price as described in the Certificate covenants. The outstanding balance at June 30, 2014, is \$27,585,000. Unamortized bond premium is \$191,877 at June 30, 2014.

Certificates of Participation

In December 2004, the City of Escondido issued \$28,805,000 Certificates of Participation to provide funds for a refunding of City of Escondido 1996 Wastewater Refunding Project COP. The 1996 Certificates of Participation were used to refund the City's 1972 Sewer Revenue Bonds, Series A, which were used for the acquisition of Daley Ranch and related water and sewer connection rights. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

The 2004A refunding COP bears interest rates between 2.50% and 4.75% and are issued under a trust agreement dated December 1, 2004 with the Bank of New York Trust Company as trustee. The refunding COP mature between September 1, 2005 through September 1, 2026, in the amounts ranging from \$725,000 to \$1,975,000. At June 30, 2013, the reserve was fully funded. The outstanding balance at June 30, 2014, is \$19,920,000. Unamortized bond discount and loss on refunding are \$80,558 and \$1,646,874, respectively, at June 30, 2014.

In December 2004, the City of Escondido issued \$10,775,000 Certificates of Participation to provide funds for certain capital improvements to the City's Wastewater System. The COP were executed and delivered concurrently with the City's 2004A Certificates of Participation.

The 2004B COP bears interest at rates between 3.31% and 4.18%. MBIA Insurance Corporation was the issuer of the COP and has simultaneously issued a financial guaranty insurance policy with the COP. The rate covenant requirement for the COP is net revenues equal to one hundred fifteen percent (115%) of the debt service for each fiscal year. At June 30, 2014, the reserve was fully funded. The outstanding balance at June 30, 2014, is \$7,720,000.

Revenue Bonds

In March 2012, the City issued \$27,390,000 in Revenue Wastewater System Financing Bonds to finance certain capital projects and to current refund a portion of the \$9,830,000 of outstanding Water Revenue Certificates of Participation, series 2000. The principal for the \$4,070,000 serial bonds is due annually on September 1 in amounts ranging from \$130,000 to \$1,410,000 commencing 2013 and ending 2031 with interest at rates varying from 1.0% to 4.0%. In addition, Term bonds are due in the amounts of \$2,375,000, \$2,615,000, \$3,000,000, \$5,075,000 and \$10,225,000 on September 1, 2028, 2030, 2033, 2036, and 2041 respectively. The term certificates pay interest at rates of 4.25% and 5.0%, and require sinking fund deposits or principal installment payments due annually on September 1 in amounts ranging from \$475,000 to \$2,255,000, commencing 2027 and ending 2041. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2013. Bonds with stated maturities on or after September 1, 2022 will be subject to optional redemption prior to their respective stated maturities, as a whole or in part, on any date as directed by the City provided at least a 30 day notice is mailed by the Trustee to bondholders, and by lot within each maturity in integral multiples of \$5,000, on or after

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

March 1, 2022 at a price without premium, equal to the principal amount plus accrued interest to the redemption date. Additionally, the term certificates, maturing on September 1, 2028, 2030, 2033, 2036 and 2041 are subject to mandatory sinking fund redemption in part on each September 1, on and after September 1, 2027 2029, 2032, 2034, and 2034 respectively, in integral multiples of \$5,000, at a redemption price without premium, equal to the principal amount plus accrued interest to the redemption date, in accordance with the schedules contained in the covenants. The rate covenant requires net revenues during each Fiscal Year to be sufficient to equal 115% of the Debt Service payable in such Fiscal Year. The outstanding balance at June 30, 2014, is \$27,120,000. Unamortized bond premium is \$1,754,202 at June 30, 2014. A reserve fund is not established.

In March 2012, the City issued \$31,660,000 in Revenue Water System Financing Bonds to finance certain capital projects and to current refund a portion of the \$9,830,000 of outstanding Revenue Certificates of Participation, series 2000, and \$8,585,000 of outstanding Revenue Certificates of Participation, series 2002. The principal for the \$10,845,000 serial bonds is due annually on September 1 in amounts ranging from \$285,000 to \$815,000 commencing 2012 and ending 2029 with interest at rates varying from 1.0% to 4.0%. In addition, Term bonds are due in the amounts of \$2,485,000, \$4,025,000, and \$14,305,000 September 1, 2031, 2033 and 2041 respectively. Term certificates pay interest at 5.0%, and require sinking fund deposits or principal installment payments due annually on September 1 in amounts ranging from \$840,000 to \$3,840,000, commencing 2030 and ending 2041. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2012. Bonds with stated maturities on or after September 1, 2022 will be subject to optional redemption prior to their respective stated maturities, as a whole or in part, on any date as directed by the City provided at least a 30 day notice is mailed by the Trustee to bondholders, and by lot within each maturity in integral multiples of \$5,000, on or after March 1, 2022 at a price without premium, equal to the principal amount plus accrued interest to the redemption date. Additionally, the term certificates, maturing on September 1, 2031, 2033, and 2041 are subject to mandatory sinking fund redemption in part on each September 1, on and after September 1, 2030, 2032, and 2038 respectively, in integral multiples of \$5,000, at a redemption price without premium, equal to the principal amount plus accrued interest to the redemption date, in accordance with the schedules contained in the covenants. The rate covenant requires net revenues during each Fiscal Year to be sufficient to equal 120% of the Debt Service payable in such Fiscal Year. The outstanding balance at June 30, 2014, is \$30,730,000. Unamortized bond premium and loss on refunding are \$1,536,796 and \$1,068,683, respectively, at June 30, 2014. A reserve fund is not established.

The 2012 refunding of the 2000A and 2002A Revenue Certificates of Participation resulted in a total economic gain (difference between the present values of the old and new debt service payments) to the city of \$1,702,728. The debt service payments representing the applicable portions of the 2012 Water and Wastewater Revenue Bond issues allocated to the refunding of the 2000A and 2002A Revenue Certificates of Participation exceed the remaining refunded debt service payments by a total of \$1,625,006.

Loans Payable

In 1999, the City of Escondido entered into an agreement with the State Water Resources Control Board (State Board) for a revolving fund loan program. The fund was established with a combination

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

of Federal Clean Water Act funds and State matching funds. The proceeds were used to construct a Tertiary Treatment Facility for local wastewater and a delivery system for recycled water to a specified number of local users.

There are two phases in the Tertiary Treatment Facility project, and the loan was set up with sub-loan amounts for each phase. The City is obligated to repay the State Board on the Federal Disbursement Amount as principal and the Local Match Amount as interest on the loan. The Federal Disbursement portion is 83.33% and the Local Match portion is 16.67% of the total loan balance.

The first phase of the Tertiary Treatment Facility project was completed on May 25, 2001. During fiscal year 2002-03 the City increased the outstanding loan balance on the second phase of the projects by \$4,912,366. The project was completed on April 1, 2003.

The principal and interest on the first phase loan is due annually on May 25 in the amount of \$488,990 commencing 2002 and ending 2021. The principal and interest on the second phase loan is due annually on April 1 in the amount of \$1,728,852 commencing 2004 and ending 2023. The outstanding balance at June 30, 2014, is \$15,818,775.

In 2002, the City of Escondido entered into an agreement with the Department of Water Resources for a loan program. The funds were provided in part from the Federal Capitalization Grant for Drinking Water State Revolving Funds program. The proceeds were used to construct the Gravity Float Line Capital Project.

Repayment began on January 1, 2005, with semi-annual payments of \$65,459 with varying interest rates from 1.94% to 3.16%. The repayment ends on July 1, 2024. The outstanding balance at June 30, 2014, is \$1,151,284.

In 2005, the City entered into an agreement with the Department of Water Resources for a loan program. The funds were provided in part from the Federal Capitalization Grants for Clean Water State Revolving Funds program. The proceeds of \$1,572,306 were used for the HARRF Aeration Blower Replacement Project.

Principal and interest is due annually on December 30 in the amount of \$98,817 commencing 2005 and ending 2024. The project was completed as of June 30, 2006. The outstanding balance at June 30, 2014, is \$945,462.

In October 2009, the City of Escondido entered into an agreement with the State Department of Public Health for funding of construction of the Alexander Area Phase II Water Line. The agreement provided for the loan funding, up to a maximum loan amount of \$6,500,000, under the provisions of the California Safe Drinking Water State Revolving Fund Loan Program and the American Recovery and Reinvestment Act of 2009. A total of \$5,626,469 in project costs were incurred and submitted to the State for reimbursement. As per the terms of the agreement, fifty percent of each disbursement was forgiven by the State and not added to the principal amount of the loan. Upon project completion in October, 2012, final loan principal to be repaid amounted to \$2,813,324. Repayment began March 1, 2012, with semi-annual payments of Principal and Interest of \$89,816, including interest at the rate of 2.5017%. The repayment period ends on September 1, 2031. The outstanding balance at June 30, 2014, is \$2,533,179.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

Debt Service Requirements to Maturity - Business-type Activities

The annual requirements to amortize outstanding long-term debt of the City's Business-type Activities as of June 30, 2014, excluding amounts for connection rights payable, employee leave benefits payable, deposits payable, loans payable, and discounts on Certificates of Participation are as follows (expressed in thousands of dollars):

Year Ending June 30	Water Revenue COP		Water Revenue Bond		Wastewater COP		Wastewater Revenue Bond		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 550	\$ 1,260	\$ 475	\$ 1,420	\$ 1,650	\$ 1,257	\$ 145	\$ 1,294	\$ 2,144	\$ 483
2016	565	1,238	495	1,408	1,720	1,188	150	1,290	2,151	476
2017	595	1,214	500	1,391	1,795	1,112	155	1,286	2,159	468
2018	620	1,190	520	1,370	1,875	1,031	160	1,280	2,167	461
2019	640	1,165	545	1,349	1,960	946	165	1,274	2,175	453
2020-2024	3,635	5,404	3,040	6,400	11,305	3,225	945	6,261	8,335	1,605
2025-2029	5,170	4,451	3,525	5,732	7,335	505	3,045	5,972	885	112
2030-2034	3,810	3,187	7,325	4,669			7,025	4,651	433	16
2035-2039	12,000	1,174	3,320	3,493			8,880	2,747		
2040-2042			10,985	842			6,450	494		
Total Debt Service	<u>\$ 27,585</u>	<u>\$ 20,283</u>	<u>\$ 30,730</u>	<u>\$ 28,074</u>	<u>\$ 27,640</u>	<u>\$ 9,264</u>	<u>\$ 27,120</u>	<u>\$ 26,549</u>	<u>\$ 20,449</u>	<u>\$ 4,074</u>

Pledged Revenue

The City and its component units have a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses, where required)	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service as a Percentage of Pledged Revenue
Charges for services	\$ 21,247,715	\$ 8,231,366	38.74%
Loan repayment revenue	1,034,046	1,033,884	99.98%

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

8: Long-Term Liabilities (Continued)

Rate Covenants

Under various debt issues, the City has agreed to set charges for water and wastewater services each year at rates sufficient to produce net revenues (after paying operating and maintenance expenses, excluding depreciation and interest) of at least 1.20 and 1.15 times the debt service on the bonds for that year for the Water and Wastewater Fund, respectively. For the year ended June 30, 2013, the City met this requirement, as follows:

	<u>Water</u>	<u>Wastewater</u>
Gross revenues, excluding intergovernmental revenue and developer contributions	\$ 55,938,951	\$ 30,728,710
Operating and maintenance expenses, excluding depreciation, interest and transfers	<u>45,217,477</u>	<u>20,202,469</u>
Net revenues	<u>10,721,474</u>	<u>10,526,241</u>
Amount required:		
Debt service payments	4,198,358	6,660,219
Coverage required	<u>1.20</u>	<u>1.15</u>
Amount required	<u>5,038,030</u>	<u>7,659,252</u>
Excess of net revenues	<u>\$ 5,683,444</u>	<u>\$ 2,866,989</u>

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

9: Fund Balance and Net Position

A. Fund Balance Classifications

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:				
Nonspendable				
Advances to other funds	\$ 159,250	\$	\$	\$ 159,250
Noncurrent loans receivable	58,440			58,440
Restricted for				
Housing & community development		42,450,762	16,847,129	59,297,891
Debt service			4,889,688	4,889,688
Capital projects			6,077,256	6,077,256
Street maintenance			7,777,934	7,777,934
Landscape and assessment districts			895,759	895,759
Other grants			11,541	11,541
Daley Ranch			722,728	722,728
Park development			1,553,166	1,553,166
Public Art			333,082	333,082
Committed to				
Reserves	17,319,659			17,319,659
Capital projects			1,614,467	1,614,467
Parks & Recreation			301,169	301,169
Daley Ranch restoration			18,504	18,504
Reidy Creek Golf Course			3,565	3,565
Ryan Trust			64,154	64,154
Hegy Trust			6,666	6,666
Assigned to				
Carryovers	99,420			99,420
Underground waivers	486,166			486,166
Library Trust	311,879			311,879
Capital projects			139,653	139,653
Unassigned	1,753,519		(1,149,954)	603,565
Total Fund Balances	\$ 20,188,333	\$ 42,450,762	\$ 40,106,507	\$ 102,745,602

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

10: Self-Insurance and Contingent Liabilities

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) which provides liability coverage to its members. As a member, the City carries a self-insured retention of \$500,000 and is insured through SANDPIPA from \$500,000 to \$2,500,000. In addition, SANDPIPA has purchased excess insurance coverage above \$2,500,000 to \$44,500,000 for all of its members, including the City.

The Board of Directors elects three members (including a President and Vice President) to the Executive Committee, which has the responsibility for overseeing all operations of SANDPIPA, including preparation and submission of the annual operating budget to the Board of Directors for its approval and modification, if deemed necessary.

Annual premiums are approved by the Board of Directors and are adjusted each year based on the following criteria:

- SANDPIPA's overall funding requirement
- Exposure base = general liability exposure – DE 6 payroll total for each member; plus automobile liability – the number of vehicles by major type for each member
- Loss experience = Each members' share of total incurred SANDPIPA layer losses for 5 years – 100% of paid losses and 20% of reserves; all losses capped at \$750,000
- Historical contributions = each members' historical contribution less dividends paid (percentage of total contributions of all members)

Assessments are recommended by the Underwriting Committee and approved by the Board of Directors and are determined by:

- Identifying the claims leading to the shortfall
- Amounts apportioned by the insurance year
- Each members' percentage applied to the overall assessment
- Assessment amount determined for program year
- Administrative fees and excess insurance are not included

If and when SANDPIPA is dissolved, the remaining assets, after all premiums and assessments have been paid and final disposition of all claims has been determined, will be distributed to members proportionate to each city's cash contributions made during the life of SANDPIPA. Until dissolution, however, no city has identifiable equity in SANDPIPA.

As of June 30, 2014, the City has recorded general self-insurance and workers' compensation liabilities of \$4,886,559 and \$9,664,000 respectively, for a total of \$14,550,559. The City is self-insured for workers' compensation up to \$500,000, but has purchased outside insurance coverage for individual claims in excess of \$500,000 up to a maximum of \$5,000,000 per claim through the CSAC Excess Insurance Authority, a risk management joint powers authority, with additional reinsurance of \$300,000,000 per occurrence. Only the probable amounts of loss as estimated by legal counsel and the City, including an estimate for incurred but not reported losses, have been recorded as liabilities in the accompanying financial statements.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

10: Self-Insurance and Contingent Liabilities (Continued)

Increases and decreases in claim liabilities for changes in estimates are charged to expense in the period in which the estimates are adjusted. For the past three years, no settlements or claims payments have exceeded the amount of the applicable insurance coverage. For the past two fiscal years, the changes in the City's liability for claims payable are summarized as follows:

	Beginning Balance	Claims Incurred and Charges in Estimates	Less Claim Payments	Ending Balance
2011-12	\$ 11,217,509	\$ 6,104,192	\$ (2,085,644)	\$ 15,236,057
2012-13	15,236,057	1,189,086	(2,589,086)	13,836,057
2013-14	13,836,057	4,563,880	(3,849,378)	14,550,559

11: Debt without Government Commitment

Mortgage Revenue Bonds

The City has issued mortgage revenue bonds for low-income multifamily dwellings. These bonds are not included in the accompanying financial statements, as these bonds are payable solely from the related mortgage loans in which the bond proceeds were invested. They are as follows:

	Original Issue Amount	Balances at June 30, 2014	Due Date
Via Robles	\$ 9,500,000	\$ 6,900,000	November 15, 2036
Heritage Park	7,450,000	4,250,000	July 15, 2033
Total Mortgage Revenue Bonds	<u>\$ 16,950,000</u>	<u>\$ 11,150,000</u>	

Special Assessment Debt Without Government Commitment

In January 1998 the City issued \$4,435,000 in Limited Obligation Improvement Refunding Bonds for the Auto Parkway project. Interest payments commenced March 2, 1999 and are paid semiannually thereafter on September 2 and March 2 of each year. Principal payments are paid annually in amounts ranging from \$10,000 to \$190,000, commencing 1999 and ending 2008. In addition, \$2,505,000 of Term Bonds are due September 2, 2018. These bonds were issued to refund the Limited Obligation Bonds issued in July 1988 for Assessment District No. 86-1-R. On June 30, 2014, the 86-1-R Limited Obligation Improvement Refunding Bonds outstanding were \$1,425,000.

In August 1998, the City issued \$5,105,000 in Limited Obligation Refunding Bonds for Assessment District No. 98-1 (Rancho San Pasqual). Interest payments commenced March 2, 1999 and are paid

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

11: Debt without Government Commitment (Continued)

semiannually thereafter on March 2 and September 2. Principal payments are paid annually in amounts ranging from \$80,000 to \$165,000 commencing September 2, 1999 and ending September 2, 2013. In addition, \$3,040,000 of Term Bonds are due September 2, 2026. These bonds were issued to refund the Limited Obligation Improvements Bonds issued in September 1995 for Rancho San Pasqual Assessment District No. 95-1. On June 30, 2014, the 98-1 Limited Obligation Refunding Bonds outstanding were \$3,040,000.

In October 2006, the City issued \$18,080,000 in Special Tax Bonds for Community Facility District No. 2006-01 (Eureka Ranch). Interest payments commenced March 1, 2007 and are paid semiannually thereafter on September 1 and March 1 of each year. Principal is paid annually in amounts ranging from \$330,000 to \$530,000, commencing September 1, 2009 and ending September 1, 2020. In addition, \$3,730,000 and \$9,300,000 of Term Bonds are due September 1, 2026 and 2036 respectively. The bonds were issued to finance various public improvements needed to develop property located within Community Facilities District No. 2006-01 (Eureka Ranch). On June 30, 2014, the 2006-01 Special Tax Bonds outstanding were \$16,200,000.

In July 2013, the City issued \$2,355,000 in Special Tax Refunding Bonds for Community Facility District No. 2000-01 (Hidden Trails). These bonds were issued to refund the 2001 Series Special Tax Bonds issued to finance various public improvements needed to develop property located within Community Facility District No. 2000-01 (Hidden Trails). The July 2013 issuance of the Special Tax Refunding Bonds fully defeased the 2001 Special Tax bonds. Interest payments for the Special Tax Refunding Bonds, Series 2013 commenced March 1, 2014, and are paid semiannually thereafter on September 1 and March 1 of each year. Principal payments are paid annually in amounts ranging from \$95,000 to \$185,000, commencing September 1, 2014 and ending September 1, 2031. On June 30, 2014, the outstanding principal of Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding bonds, Series 2013 was \$2,355,000.

The bonds are secured by and payable from the proceeds of annual special assessment taxes levied and collected on the property within the Districts. The bonds are not general or special obligations of the City of Escondido. The City is not obligated in any manner for the payment of debt service in the event of default by the property owners but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate. Neither the faith and credit nor taxing power of the City is pledged to the payment of these bonds. Accordingly, no liability for these bond issuances has been recorded and all debt service transactions have been recorded as an agency fund.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

12: City Employees Retirement Plans

Defined Benefit Pension Plan (PERS)

Plan Description

The City of Escondido contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, 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 reports may be obtained from its executive office at Lincoln Plaza North, 400 "Q" Street, Sacramento, California 95811.

Funding Policy

In September 2012, the California Public Employees' Pension Reform Act (PEPRA) was enacted. Under its provisions, employees hired on or after January 1, 2013, have a lower cost-pension benefit formula than employees hired before that date.

Tier 1 participants under the miscellaneous plan are required to contribute 8% of their annual covered salary, Tier 2 participants are required to contribute 7% of their annual covered salary, and Tier 3 participants are required to contribute 6.25% of their annual covered salary. The City previously made 7% of the 8% contributions required of Tier 1 City employees on their behalf and for their account, but effective between June 30, 2011 and August 7, 2011, the City no longer pays the employee portion for the miscellaneous plan.

Until January 2013 participants under the safety plan were required to contribute 9% of their annual covered salary of which the City paid all of the Police employees required contribution. The Fire employees paid their own required contribution. Beginning January 2013 Tier 1 and Tier 2 Police and Fire Employees are required to pay the full 9% of the required contribution and Tier 3 Police and Fire Employees are required to pay the full 12.25% of the required contribution.

Benefit provisions and all other requirements are established by state statute and City contract with employee bargaining groups and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

Under GASB 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 (NPO). The ARC for the period July 1, 2013 to June 30, 2014, has been determined by an actuarial valuation of the plan as of June 30, 2012. The contribution rate indicated for the period is 25.150 % of payroll for the miscellaneous plan and 34.486% 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.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

12: City Employees Retirement Plans (Continued)

Three-Year Trend Information				
Annual Pension Cost (Employer Contribution)				
Fiscal Year	Safety	Miscellaneous	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 6,850,763	\$ 6,821,337	100%	\$
6/30/2013	6,899,676	7,321,546	100%	
6/30/2014	7,662,810	8,144,874	100%	

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the miscellaneous and safety plans were 69.3% and 74.5% funded, respectively. The actuarial accrued liability for benefits was \$316,832,264 and \$285,837,080 for miscellaneous and safety, respectively, and the actuarial value of assets was \$219,521,228 and \$213,084,280 for miscellaneous and safety, respectively, resulting in an unfunded actuarial accrued liability (UAAL) of \$97,311,036 and \$72,752,800 for miscellaneous and safety, respectively. The covered payroll (annual payroll of active employees covered by the plans) were \$31,961,445 and \$19,983,630 for miscellaneous and safety, respectively, and the ratios of the UAAL to the covered payroll were 304.5% and 364.1% for miscellaneous and safety, respectively.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, 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.

A summary of principle assumptions and methods used for the most recent actuarial valuation are as follows:

	Miscellaneous Plan	Safety Plan
Valuation Date	June 30, 2013	June 30, 2013
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date	23 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market	15 Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50% (net of administrative expenses)	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

12: City Employees Retirement Plans (Continued)

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30-year period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Defined Contribution Plan

In accordance with the Federal Omnibus Budget Reconciliation Act of 1990, the City established pension benefits for all of its part-time employees through Public Agency Retirement Services (PARS) which is a private administrator of pension plans that administers for the City a defined contribution plan, qualifying under sections 401 and 501 of the Internal Revenue Code. PARS acts as a common investment and administrative agent for participating public entities within the State of California. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City by Council action and agreements with labor bargaining units has the authority to establish or amend the plan provisions and contribution requirements, subject to the constraints and limitations imposed by PARS as a part of the plan design options it offers to participating employers.

For the year ended June 30, 2014, the City's total covered payroll was \$1,996,787. The City made employer contributions of \$0, and employees contributed \$149,760 (7.5 percent of covered payroll). All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions. The plan covers part-time, seasonal, or temporary employees, and all employees not covered by another retirement system, subject to the requirements of Section 3121 of the Internal Revenue Code.

13: Other Disclosures

On February 8, 2006, the City entered into a developer agreement with Palomar Pomerado Health (Hospital). The Hospital made a onetime payment to the City in the amount of \$13 million (deposit) for the City to construct certain Citracado Parkway improvements (project). The deposit is to be jointly controlled by the City and the Hospital. The City is entitled to draw from the deposit so long as the funds are used exclusively on the project. At June 30, 2014, the balance is \$11,485,403.

14: Contingencies

Litigation

Various claims and suits have been filed against the City in the normal course of business. Although the outcome of these matters is not presently determinable in the opinion of legal counsel, the city believes that the resolutions of these matters will not have a material adverse effect on the financial condition of the City.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

14: Contingencies (Continued)

Advances to Successor Agency

In accordance with AB X1 26 which dissolves redevelopment agencies, Section 34171(d)(2) states, in relation to borrowings between the City and the Agency, that “for purposes of this part, enforceable obligation does not include any agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency. However, written agreements entered into (A) at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and (B) solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations for the purposes of this part. Notwithstanding this paragraph, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created it, within two years of the date of creation of the redevelopment agency, may be deemed to be enforceable obligations”. The City believes these are to be upheld as viable enforceable obligations and have been included on the Recognized Obligation Payment Schedule (ROPS) from the Successor Agency. Certain amounts have been denied by the Department of Finance and these borrowings are currently in litigation and the possible outcome is unknown at this time.

15: Construction Commitments

The following material construction commitments existed at June 30, 2014:

Project Name	Contract Amount	Expenditures to date as of June 30, 2014	Remaining Commitments
HARRF Influent Pump Station Rehab	\$ 7,833,111	\$ 6,135,604	\$ 1,697,507
HARRF Expansion Ph III-Ops	5,540,642	2,293,508	3,247,134
Lake Wohlford Dam Replacement Design Proj	5,090,858	930,041	4,160,817
Final Design of Citracado Pkwy, Andreasen Dr to W Valley Pkwy St Improvement Proj	2,488,045	436,682	2,051,363

16: Successor Agency Trust For Assets of the Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Escondido that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 25, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-16.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

A. Cash and investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments	\$ 8,445,820
Total	<u>\$ 8,445,820</u>

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

B. Capital Assets

The following capital assets were transferred from the former CDC to the Successor Agency as of February 1, 2012, as a result of the dissolution.

An analysis of capital assets as of June 30, 2014, is as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 6,074,290	\$	\$	\$ 6,074,290
Total capital assets, not being depreciated	<u>6,074,290</u>			<u>6,074,290</u>
Capital assets, being depreciated:				
Land improvements	139,295			139,295
Buildings	84,382,538			84,382,538
Machinery and equipment	<u>276,473</u>			<u>276,473</u>
Total capital assets, being depreciated	<u>84,798,306</u>			<u>84,798,306</u>
Less accumulated depreciation for:				
Land improvements	139,295			139,295
Buildings	49,526,724	2,736,015		52,262,739
Machinery and equipment	<u>276,473</u>			<u>276,473</u>
Total accumulated depreciation	<u>49,942,492</u>	<u>2,736,015</u>		<u>52,678,507</u>
Total capital assets being depreciated, net	<u>34,855,814</u>	<u>(2,736,015)</u>		<u>32,119,799</u>
Total capital assets, net	<u>\$ 40,930,104</u>	<u>\$ (2,736,015)</u>	<u>\$</u>	<u>\$ 38,194,089</u>

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

C. Long-Term Debt

The following debt was transferred from the former CDC to the Successor Agency as of February 1, 2012, as a result of the dissolution.

A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2014, follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Due Within One Year	Due Beyond One Year
Advances from the City of Escondido	\$ 4,370,046	\$ 3,290	\$	\$ 4,373,336	\$	\$ 4,373,336
1992 Tax Allocation Revenue Bonds	2,216,646		2,216,646			
2007 A & B Lease Revenue Bonds	35,545,000		3,475,000	32,070,000	5,785,000	26,285,000
Loans - Other Governments	6,582,222		3,132,222	3,450,000		3,450,000
Total	\$ 48,713,914	\$ 3,290	\$ 8,823,868	39,893,336	\$ 5,785,000	\$ 34,108,336
Unamortized Bond Premium				919,184		
Total				\$ 40,812,520		

Advances from the City of Escondido

The Community Development Commission Debt Service Fund had received monies from the General Fund, Street Special Revenue Fund and Community Development Commission Low and Moderate Income Housing Fund for use in its operations, capital improvement projects, and Educational Revenue Augmentation Fund payments made for fiscal years 1992-93 through 1994-95 and 2003-04 through 2005-06. These advances were absorbed by the Successor Agency at February 1, 2012, and recorded on the ROPS to be an enforceable obligation. In a letter dated December 18, 2012, the California Department of Finance disallowed \$37,470,054. These borrowings are currently in litigation and the possible outcome is unknown at this time. At June 30, 2014, the outstanding balance of the advances from other funds totaled \$4,373,336.

Tax Allocation Bonds

In January 1992, the Escondido Joint Powers Financing Authority issued \$35,986,152 Revenue Bonds Series 1992 for the purpose of making a loan to the Escondido Community Development Commission. In December 2001, the Commission issued \$22,420,000 Revenue Bonds to advance refund \$23,585,000 of the bonds. The bonds were paid in full during the year ending June 30, 2014.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

Lease Revenue Bonds

In January 2007, the Escondido Joint Powers Financing Authority issued \$40,025,000 2007A Lease Revenue Refunding Bonds and \$16,525,000 2007B Taxable Lease Revenue Refunding Bonds to refund the 1995 Certificates of Participation (COP) Lease Revenue Bonds.

The 2007A Lease Revenue Refunding Bonds bear interest rates between 3.6% to 4.02% payable semiannually on March 1 and September 1 of each year. The 2007A Lease Revenue Refunding Bonds mature between September 1, 2009 and September 1, 2018, in amounts ranging from \$850,000 to \$5,025,000. The 2007B Taxable Lease Revenue Refunding Bonds mature on September 1, 2018 at 5.53% rate. The 2007B bonds are subject to mandatory redemption from a sinking fund account in amounts ranging from \$930,000 to \$2,045,000 commencing September 1, 2009. Both 2007A and 2007B bonds are subject to mandatory redemption as a whole or in part on any date without premium, from unused insurance or condemnation proceed as described in the bond covenants. The reserve for 2007A and 2007B bonds was in form of surety bond and fully funded. The outstanding balance at June 30, 2014, is \$32,070,000. Unamortized bond premium and gain on refunding was \$919,184 and \$183,262 respectively, at June 30, 2014.

Debt Service Requirements to Maturity

The annual requirements to amortize outstanding long-term debt including accreted values through maturity, excluding amounts for employee leave benefits payable, claims payable and loans payable are as follows (expressed in thousands of dollars):

Year Ending June 30	Lease Revenue Bonds	
	Principal	Interest
2015	\$ 5,785	\$ 1,504
2016	6,085	1,198
2017	6,400	876
2018	6,730	538
2019	7,070	182
Total Debt Service Payments	\$ 32,070	\$ 4,298

D. Insurance

The Successor Agency is covered under the City of Escondido's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Successor Agency. Additional information as to coverage and self-insured retentions can be found in Note 10.

CITY OF ESCONDIDO
Notes to the Basic Financial Statements (Continued)
June 30, 2014

16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)

E. Commitments and Contingencies

At June 30, 2014, the Successor Agency was involved as a defendant in several lawsuits arising out of the ordinary conduct of its affairs. It is the opinion of management that settlements of these lawsuits, including losses for claims that are incurred but not reported, if any, will not have a material effect on the financial position of the Successor Agency.

17: Subsequent Event

In December 2014 the San Luis Rey settlement agreement with the City of Escondido, the Bands (the La Jolla, Rincon, San Pasqual, Pauma, and Pala Bands of Mission Indians) and Vista Irrigation District (VID) was signed by all parties and will be enacted once various preconditions are met which is expected to be completed in 2016. The Agreement commits Escondido and VID within five year from the effective date of that agreement to "remove, relocate, and replace with an underground pipeline most or all of that portion of the Escondido Canal and its appurtenant structures, facilities, and rights-of-way that currently occupy land within the San Pasqual Reservation." The cost of this project is currently unknown but is estimated to cost approximately \$11 million. Additionally, Escondido and VID will each pay the Indian Water Authority \$3.85 million ("Settlement Payment").

Required Supplementary Information

CITY OF ESCONDIDO
Public Employees Retirement System
Schedule of Funding Progress
June 30, 2014

The Schedule of Funding Progress below show the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The schedule of funding progress, presented below 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.

Safety Employees

Actuarial Valuation Date	Accrued Liability (AAL) Entry Age	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
6/30/2011	264,683,120	219,102,277	45,580,843	82.8%	20,389,124	223.6%
6/30/2012	277,251,472	229,827,258	47,424,214	82.9%	19,568,948	242.3%
6/30/2013	285,837,080	213,084,280	72,752,800	74.5%	19,983,630	364.1%

Miscellaneous Employees

Actuarial Valuation Date	Accrued Liability (AAL) Entry Age	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
6/30/2011	289,371,286	224,366,487	65,004,799	77.5%	32,582,511	199.5%
6/30/2012	301,925,404	235,998,321	65,927,083	78.2%	31,403,451	209.9%
6/30/2013	316,832,264	219,521,228	97,311,036	69.3%	31,961,445	304.5%

CITY OF ESCONDIDO
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:				
Sales Tax:				
Sales tax	\$ 26,352,000	\$ 25,452,000	\$ 24,145,308	\$ (1,306,692)
In-lieu sales tax	8,489,500	8,132,000	8,131,987	(13)
Total Sales Tax	34,841,500	33,584,000	32,277,295	(1,306,705)
Other Taxes:				
Property taxes	10,280,000	10,526,000	10,556,483	30,483
Property transfer tax	386,000	495,000	507,599	12,599
Franchise tax	6,249,000	6,953,000	6,591,147	(361,853)
Transient occupancy tax	1,205,000	1,304,000	1,322,016	18,016
Business license tax	1,622,000	1,642,000	1,658,276	16,276
Miscellaneous other taxes	798,415	841,915	1,284,733	442,818
Total Other Taxes	20,540,415	21,761,915	21,920,254	158,339
Licenses and Permits:				
Tow licenses	450,000	450,000	446,250	(3,750)
Building permits	290,000	290,000	317,983	27,983
Other licenses and permits	194,000	194,000	226,931	32,931
Total Licenses and Permits	934,000	934,000	991,164	57,164
Fines and Forfeits:				
Vehicle code fines	500,000	400,000	228,808	(171,192)
Parking ticket fines	200,000	200,000	397,390	197,390
Library fines	83,000	83,000	174,899	91,899
Booking fees	78,000	78,000	73,797	(4,203)
Red light photo citations	206,500	206,500	56,162	(150,338)
Other fines	349,000	349,000	253,236	(95,764)
Total Fines and Forfeits	1,416,500	1,316,500	1,184,292	(132,208)

(Continued)

See Note to Required Supplementary Information.

CITY OF ESCONDIDO
General Fund
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
Intergovernmental:				
State motor vehicle in lieu			62,583	62,583
Property tax in-lieu	10,532,000	10,668,000	10,668,256	256
Grants	462,450	462,450	1,329,837	867,387
Rincon fire operation fees	1,900,000	1,800,000	1,466,481	(333,519)
Miscellaneous agencies	165,050	165,050	175,975	10,925
Total Intergovernmental	13,059,500	13,095,500	13,703,132	607,632
Charges for Services:				
Zoning and subdivision fees	70,000	70,000	137,488	67,488
Annexation fees	5,000	5,000	22,000	17,000
Sale of maps and publications	1,000	1,000	223	(777)
Plan check fees	173,000	223,000	254,207	31,207
Environmental impact report	5,000	5,000	30,098	25,098
Engineering and inspection fees	460,000	974,000	969,639	(4,361)
Special police services	455,500	505,500	468,108	(37,392)
Fire and paramedic services	3,963,000	4,229,190	4,671,014	441,824
Processing fees	44,000	44,000	17,990	(26,010)
Recycling revenue	776,000	726,000	596,216	(129,784)
Senior services	13,000	13,000	12,142	(858)
Audio visual rentals	60,000	60,000	51,260	(8,740)
Other	131,000	131,000	270,175	139,175
Total Charges for Services	6,156,500	6,986,690	7,500,560	513,870
Investment income	450,000	250,000	156,253	(93,747)
Miscellaneous:				
Rent	2,966,000	3,013,120	2,913,387	(99,733)
Contributions	63,500	89,335	27,769	(61,566)
Mobile home fees	41,000	41,000	33,107	(7,893)
Library trust donations			102,807	102,807
Other	237,000	241,905	252,044	10,139
Total Miscellaneous	3,307,500	3,385,360	3,329,114	(56,246)
Total Revenues	80,705,915	81,313,965	81,062,064	(251,901)

(Continued)

See Note to Required Supplementary Information.

CITY OF ESCONDIDO
General Fund
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
Expenditures:				
General Government:				
City council	302,215	303,915	303,263	(652)
City manager	989,505	1,168,530	1,117,985	(50,545)
City attorney	178,710	355,710	344,318	(11,392)
City clerk	478,595	647,015	565,505	(81,510)
City treasurer	287,270	289,805	282,050	(7,755)
Finance	1,208,225	1,304,805	1,070,053	(234,752)
Human resources	536,130	580,965	529,784	(51,181)
Information systems	1,078,215	1,097,265	1,014,221	(83,044)
Other	1,457,805	660,195	357,495	(302,700)
Total General Government	6,516,670	6,408,205	5,584,674	(823,531)
Public Safety:				
Police	35,307,675	35,735,300	35,589,194	(146,106)
Fire	20,312,690	20,673,315	20,577,272	(96,043)
Total Public Safety	55,620,365	56,408,615	56,166,466	(242,149)
Public Works:				
Highways and streets	10,330,295	10,380,630	9,813,633	(566,997)
Community Services:				
Library	3,525,625	3,531,240	3,495,897	(35,343)
Community services	2,645,835	2,740,715	2,689,113	(51,602)
Community relations	91,170	101,170	49,000	(52,170)
Total Community Services	6,262,630	6,373,125	6,234,010	(139,115)

(Continued)

See Note to Required Supplementary Information.

CITY OF ESCONDIDO
General Fund
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
Community Development:				
Planning	1,369,000	1,406,085	1,347,121	(58,964)
Building	767,980	770,625	712,265	(58,360)
Code enforcement	1,024,675	1,024,675	920,326	(104,349)
Total Community Development	<u>3,161,655</u>	<u>3,201,385</u>	<u>2,979,712</u>	<u>(221,673)</u>
Debt Service:				
Principal retirements			23,176	23,176
Total Expenditures	<u>81,891,615</u>	<u>82,771,960</u>	<u>80,801,671</u>	<u>(1,970,289)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,185,700)</u>	<u>(1,457,995)</u>	<u>260,393</u>	<u>1,718,388</u>
Other Financing Sources (Uses):				
Sale of capital assets		437,295	537,293	99,998
Transfers in	2,126,800	2,256,879	2,278,879	22,000
Transfers out	(621,100)	(3,830,037)	(3,830,037)	
Total Other Financing Sources (Uses)	<u>1,505,700</u>	<u>(1,135,863)</u>	<u>(1,013,865)</u>	<u>121,998</u>
Net Change in Fund Balance	320,000	(2,593,858)	(753,472)	1,840,386
Fund Balance at Beginning of Year	<u>20,941,805</u>	<u>20,941,805</u>	<u>20,941,805</u>	
Fund Balance at End of Year	<u>\$ 21,261,805</u>	<u>\$ 18,347,947</u>	<u>\$ 20,188,333</u>	<u>\$ 1,840,386</u>

See Note to Required Supplementary Information.

CITY OF ESCONDIDO
Successor Agency Housing Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:				
Lease income	\$ 191,945	\$ 191,945	\$ 205,259	\$ 13,314
Investment income	100	100	272,247	272,147
Miscellaneous			41,640	41,640
Total Revenues	192,045	192,045	519,146	327,101
Expenditures:				
Community development	625,015	625,015	724,378	99,363
Excess of Revenues Over Expenditures	(432,970)	(432,970)	(205,232)	227,738
Other Financing Sources (Uses):				
Sale of city property	55,000	55,000	(250,753)	(305,753)
Transfers in	60,000	60,000	60,000	
Total Other Financing Sources (Uses)	115,000	115,000	(190,753)	(305,753)
Net Change in Fund Balance	(317,970)	(317,970)	(395,985)	(78,015)
Fund Balance at Beginning of Year	42,846,747	42,846,747	42,846,747	
Fund Balance at End of Year	\$ 42,528,777	\$ 42,528,777	\$ 42,450,762	\$ (78,015)

See Note to Required Supplementary Information.

CITY OF ESCONDIDO
Notes to Required Supplementary Information
June 30, 2014

Budgetary Data

The City adopts an annual operating budget prepared on the modified accrual basis for its general, certain special revenue and certain debt service funds. Under Section 2-59 of the Escondido City Code, the City Manager is required to prepare and submit to the City Council the annual budget of the City and administer it after adoption. Each year, the City Manager submits a proposed budget to the City Council in May. The City Council holds budget hearings in June and the final budget is adopted by the City Council before June 30. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between the accounts of any fund; however, any revisions that alter the total appropriations of any fund must be approved by City Council.

No budgetary comparisons are presented for certain special revenue, certain debt service capital projects or proprietary funds as the City is not legally required to adopt an annual budget for those funds. The special revenue funds with legally adopted budgets include the: Successor Agency Housing, Street, Parks and Recreation, Community Development Block Grant, Landscape and Assessment District, HOME, Miscellaneous Funds and the Vehicle Parking District Fund.

The City holds a midyear budget review meeting at which time revenue and expenditure projections are reviewed. Any necessary changes are approved by the City Council. Prior period appropriations lapse unless they are reappropriated through the formal budget process or through the carryover process. The City controls its expenditures using encumbrance accounting.

In addition to the annual operating budget, the City adopts a Five-Year Capital improvement Program. Funds are appropriated for the first year of the plan with years two through five included for planning purposes. Funds are appropriated on a project basis and are carried over until expended or the project is closed. The legal level of budgetary control is at the project level. The City Manager is authorized to transfer budgeted amounts between projects when transfers are less than \$50,000 or 10% of the project. Transfers in excess of the budget policy amount must be approved by the City Council.

Supplementary Information

SPECIAL REVENUE FUNDS

STREET FUND

This fund was established to account for transactions related to:

- Gasoline taxes received under Sections 2103, 2105, 2106, 2107, and 2107.5 of the Streets and Highways Code. These funds are utilized solely for street-related purposes such as new construction, rehabilitation or maintenance.
- Traffic impact fees which are collected from developers. These fees are used exclusively for street improvements that are required as the result of growth and development.

PARKS AND RECREATION FUND

This fund was established to account for transactions related to:

- The purchase and development of parks with funding received from park development fees collected from developers.
- All Park and Recreation transactions. This includes operation of the East Valley Community Center, Kit Carson Park Sports Center, and the Reidy Creek Municipal Golf Course.
- The revenue received from the sale of mitigation credits. The funds will be used to provide fund restoration projects at Daley Ranch.

COMMUNITY DEVELOPMENT BLOCK GRANT FUND

This fund was created to account for transactions related to the Community Development Block Grant provided by the Federal Government. The resources are expended for community development and housing assistance.

LANDSCAPE AND ASSESSMENT DISTRICT FUND

This fund was created to account for transactions related to the maintenance of landscaping in various subdivision areas throughout the City. There are currently 36 active assessment districts.

SPECIAL REVENUE FUNDS

(Continued)

LAW ENFORCEMENT FUND

This fund was established to account for transactions related to:

- Revenue received by the Police Department through the asset forfeiture program. The funds must be used to supplement and enhance existing law enforcement budgets.
- Transactions related to the law enforcement grants received from the Federal and State Government. These funds are used to provide front line law enforcement services and must supplement existing services.

CABLE TECHNOLOGY FUND

This fund was created to account for a Technology Grant from Cox Communications for the purchase and installation of telecommunications equipment and services.

HOME FUND

This fund was created to account for transactions related to the HOME grant provided by the Department of Housing and Urban Development (HUD). The resources are expended for affordable housing programs.

MISCELLANEOUS FUND

This fund was established to account for transactions related to:

- Public art fees, which are assessed when development occurs. The funds will be used to provide public art throughout the city.
- General reimbursable grants received and restricted by outside sources including federal, state, county, and local agencies.
- The Hegyi Family Trust. Funds are used to recognize library volunteers.
- Monies received from the Frances B. Ryan Trust. The Trust was established to create the Pioneer Room, a historical perspective of Escondido, and to provide financing for its ongoing operation.

VEHICLE PARKING DISTRICT FUND

This fund was established to account for transactions related to the maintenance and operation of the City-owned public parking lots. Funding is provided by parking permit revenues.

DEBT SERVICE FUNDS

GOLF COURSE DEBT SERVICE FUND

This fund was created to account for transactions related to debt issued for the development of two Municipal Golf Courses. Funding is provided by repayment of a loan to American Golf Corporation and a General Fund transfer.

GENERAL OBLIGATION DEBT SERVICE FUND

This fund was created to account for transactions related to debt issued for the construction of the new public safety facilities. On November 2, 2004, Escondido voters approved Proposition P, which authorized the sale of up to \$84,350,000 in municipal bonds. Funding is provided through special assessments on the property tax rolls.

CAPITAL PROJECT FUNDS

STREET IMPROVEMENT FUND

This fund was created to account for projects related to street improvements. Funding is provided from a variety of sources, which include transfers from Gas Tax and Traffic Impact Funds.

STORM DRAIN FUND

This fund was created to account for funds collected from developers when projects create a need for improvements to the City's storm drain basin system. Funds are held until collections for a specific basin make an improvement.

PUBLIC SAFETY FACILITIES

This fund was created to account for projects related to the fire, police and paramedic 911 emergency response measure (Proposition P). These projects are intended to improve fire and police response times, better coordinate emergency/disaster response and public communication and improve paramedic response time. On November 2, 2004, Escondido voters approved Proposition P, which authorized the sale of up to \$84,350,000 in municipal bonds to finance the new public safety facilities. Funding is provided through special assessments on the property tax rolls.

GENERAL CAPITAL PROJECT FUND

This fund was created to account for transactions related to general capital projects. These projects are typically funded through transfers from General, Public Facilities, and Water and Sewer funds.

CAPITAL PROJECT FUNDS

(Continued)

COUNTY TRANSPORTATION STREET AND BICYCLE PROJECTS FUND

This fund was established to account for funds received:

- Through the adoption of the 1987 San Diego County Special Proposition A, this provides a transportation sales tax override to fund local street improvements.
- From SANDAG relative to the Transportation Development Act. Expenditures in this fund pertain to the development of bike paths.

PUBLIC FACILITIES FUND

This fund was created to account for developer fees collected for public facility needs that are created as the result of growth and development in the city.

PERMANENT FUNDS

DALEY RANCH FUND

This fund was created to fund the City's long-term management and maintenance efforts, of Daley Ranch, as stated in the agreement with the Wildlife Agencies.

CITY OF ESCONDIDO
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Funds			
	Street	Parks and Recreation	Community Development Block Grant	Landscape and Assessment District
<u>Assets:</u>				
Cash and investments	\$ 6,013,810	\$ 2,206,657	\$	\$ 899,102
Cash and investments with fiscal agent				
<u>Receivables:</u>				
Accounts		310,853		
Interest	18,471	6,936		2,966
Taxes				565
Loans		259,297	251,858	
Loans to Successor Agency	974,044			
Due from other governments	433,197	47,870	1,136,363	
Inventory, at cost		9,000		
Prepaid expenditures		11,248		
Deposits		55,088		
Land held for resale				
Advances to other funds				
Total Assets	<u>\$ 7,439,522</u>	<u>\$ 2,906,949</u>	<u>\$ 1,388,221</u>	<u>\$ 902,633</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances:</u>				
<u>Liabilities:</u>				
<u>Payables:</u>				
Accounts	\$ 454,610	\$ 85,632	\$ 36,067	\$ 6,874
Deposits		43,919		
Accrued expenditures		85,144	76,558	
Due to other funds			959,890	
Due to other governments				
Unearned revenue				
Advances from other funds		200,000		
Total Liabilities	<u>454,610</u>	<u>414,695</u>	<u>1,072,515</u>	<u>6,874</u>
<u>Deferred Inflows of Resources:</u>				
Unavailable Revenue	<u>802,180</u>	<u>51,350</u>	<u>568,137</u>	
<u>Fund Balances (Deficits):</u>				
Restricted	6,182,732	2,117,666		895,759
Committed		323,238		
Assigned				
Unassigned			(252,431)	
Total Fund Balances (Deficits)	<u>6,182,732</u>	<u>2,440,904</u>	<u>(252,431)</u>	<u>895,759</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,439,522</u>	<u>\$ 2,906,949</u>	<u>\$ 1,388,221</u>	<u>\$ 902,633</u>

Special Revenue Funds

<u>Law Enforcement</u>	<u>Cable Technology</u>	<u>HOME</u>	<u>Miscellaneous</u>	<u>Vehicle Parking District</u>
\$	\$ 11,506	\$ 2,926,930	\$ 388,028	\$ 5,220
3,323	35	3,370,115	4,226 1,530	79
		13,910,296		
923,472			11,027	
<u>\$ 926,795</u>	<u>\$ 11,541</u>	<u>\$ 20,207,341</u>	<u>\$ 404,811</u>	<u>\$ 5,299</u>
\$ 160	\$	\$ 100	\$ 971	\$ 441
8,493 43,887			402	
387,579				469,988
<u>440,119</u>		<u>100</u>	<u>1,373</u>	<u>159,250</u> <u>629,679</u>
<u>748,328</u>		<u>3,360,112</u>	<u>11,027</u>	
	11,541	16,847,129	333,082 70,820	
(261,652)			(11,491)	(624,380)
<u>(261,652)</u>	<u>11,541</u>	<u>16,847,129</u>	<u>392,411</u>	<u>(624,380)</u>
<u>\$ 926,795</u>	<u>\$ 11,541</u>	<u>\$ 20,207,341</u>	<u>\$ 404,811</u>	<u>\$ 5,299</u>

(Continued)

CITY OF ESCONDIDO
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2014

	Debt Service Funds		Capital Projects Funds	
	Golf Course	General Obligation	Street Improvement	Storm Drain
<u>Assets:</u>				
Cash and investments	\$	\$ 4,264,526	\$ 3,523,677	\$ 176,422
Cash and investments with fiscal agent	673,137			
Receivables:				
Accounts				
Interest	2,442	11,796	12,957	
Taxes		28,230		818
Loans				
Loans to Successor Agency				
Due from other governments			642,239	
Inventory, at cost				
Prepaid expenditures				
Deposits				
Land held for resale				
Advances to other funds			200,000	
Total Assets	\$ 675,579	\$ 4,304,552	\$ 4,378,873	\$ 177,240
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances:</u>				
Liabilities:				
Payables:				
Accounts	\$	\$	\$ 265,195	\$
Deposits			1,901,348	9,573
Accrued expenditures				
Due to other funds	154,943			
Due to other governments				
Unearned revenue				
Advances from other funds				
Total Liabilities	154,943		2,166,543	9,573
Deferred Inflows of Resources:				
Unavailable Revenue			617,128	
Fund Balances:				
Restricted	520,636	4,304,552	1,595,202	167,667
Committed				
Assigned				
Unassigned				
Total Fund Balances (Deficits)	520,636	4,304,552	1,595,202	167,667
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 675,579	\$ 4,304,552	\$ 4,378,873	\$ 177,240

Capital Projects Funds				Permanent Fund	Total Nonmajor Governmental Funds
Public Safety Facilities	General Capital Project	County Transportation Street and Bicycle Projects	Public Facilities	Daley Ranch	
\$ 75,573	\$ 1,779,036	\$ 392,284	\$ 4,730,135	\$ 221,918	\$ 27,614,824
					673,137
					315,079
122	7,273		18,247	810	3,457,102
					29,613
					14,421,451
					974,044
	1,298				3,195,466
					9,000
					11,248
					55,088
		802,142			802,142
			330,000		530,000
<u>\$ 75,695</u>	<u>1,787,607</u>	<u>\$ 1,194,426</u>	<u>\$ 5,078,382</u>	<u>\$ 222,728</u>	<u>\$ 52,088,194</u>
\$	\$ 7,710	\$ 420,947	\$ 17,852	\$	\$ 1,296,559
	18,240				1,973,080
	7,537		115		178,249
					1,158,720
					469,988
					387,579
					359,250
	<u>33,487</u>	<u>420,947</u>	<u>17,967</u>		<u>5,823,425</u>
					6,158,262
75,695		773,479	5,060,415	222,728	39,108,283
	1,614,467				2,008,525
	139,653				139,653
					(1,149,954)
<u>75,695</u>	<u>1,754,120</u>	<u>773,479</u>	<u>5,060,415</u>	<u>222,728</u>	<u>40,106,507</u>
<u>\$ 75,695</u>	<u>\$ 1,787,607</u>	<u>\$ 1,194,426</u>	<u>\$ 5,078,382</u>	<u>\$ 222,728</u>	<u>\$ 52,088,194</u>

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue Funds			
	Street	Parks and Recreation	Community Development Block Grant	Landscape Assessment District
Revenues:				
Other taxes	\$	\$	\$	\$
Intergovernmental	4,624,581	768,915	1,940,652	
Charges for services	299,169	2,701,212		
Special assessments				749,328
Investment income	94,836	65,921		7,348
Miscellaneous		595,877	13,495	5,760
Total Revenues	<u>5,018,586</u>	<u>4,131,925</u>	<u>1,954,147</u>	<u>762,436</u>
Expenditures:				
Current:				
General government				
Public safety				
Public works	1,224,663		53,556	671,927
Community services		4,454,119	1,106,610	
Community development	10,262		122,643	
Capital outlay	604,947	13,810	911,723	
Debt Service:				
Principal retirements		5,185		
Interest and fiscal charges				
Total Expenditures	<u>1,839,872</u>	<u>4,473,114</u>	<u>2,194,532</u>	<u>671,927</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,178,714</u>	<u>(341,189)</u>	<u>(240,385)</u>	<u>90,509</u>
Other Financing Sources (Uses):				
Sale of capital assets		1,060,000		
Transfers in		133,984		
Transfers out	<u>(2,055,000)</u>	<u>(741,600)</u>		
Total Other Financing Sources (Uses)	<u>(2,055,000)</u>	<u>452,384</u>		
Net Change in Fund Balances	1,123,714	111,195	(240,385)	90,509
Fund Balances at Beginning of Fiscal Year	<u>5,059,018</u>	<u>2,329,709</u>	<u>(12,046)</u>	<u>805,250</u>
Fund Balances at End of Year	<u>\$ 6,182,732</u>	<u>\$ 2,440,904</u>	<u>\$ (252,431)</u>	<u>\$ 895,759</u>

Special Revenue Funds

Law Enforcement	Cable Technology	HOME	Miscellaneous	Vehicle Parking District
\$ 1,654,283		\$ 195,676	\$ 143,427 26,021	\$
8,235	86	129,633	4,472 61	90
<u>1,662,518</u>	<u>86</u>	<u>325,309</u>	<u>173,981</u>	<u>90</u>
1,593,885			105,750 34,883	74,627
587,613		237,208	59,965 26,938	
<u>2,181,498</u>		<u>237,208</u>	<u>227,536</u>	<u>74,627</u>
<u>(518,980)</u>	<u>86</u>	<u>88,101</u>	<u>(53,555)</u>	<u>(74,537)</u>
	4,065		(46,800)	76,800
	<u>4,065</u>		<u>(46,800)</u>	<u>76,800</u>
(518,980)	4,151	88,101	(100,355)	2,263
<u>257,328</u>	<u>7,390</u>	<u>16,759,028</u>	<u>492,766</u>	<u>(626,643)</u>
<u>\$ (261,652)</u>	<u>\$ 11,541</u>	<u>\$ 16,847,129</u>	<u>\$ 392,411</u>	<u>\$ (624,380)</u>

(Continued)

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds (Continued)
For the Year Ended June 30, 2014

	Debt Service Funds		Capital Project Funds	
	Golf Course	General Obligation	Street Improvement	Storm Drain
Revenues:				
Other taxes	\$	\$	\$	\$
Intergovernmental			677,923	
Charges for services			1,701,461	55,892
Special assessments		5,047,009		
Investment income	623	13,052	42,951	3,406
Miscellaneous				
Total Revenues	623	5,060,061	2,422,335	59,298
Expenditures:				
Current:				
General government				
Public safety				
Public works			374,984	8,573
Community services				
Community development				
Capital outlay			1,073,774	407,599
Debt Service:				
Principal retirements	800,000	1,700,000		
Interest and fiscal charges	238,542	3,498,695		
Total Expenditures	1,038,542	5,198,695	1,448,758	416,172
Excess (Deficiency) of Revenues Over Expenditures	(1,037,919)	(138,634)	973,577	(356,874)
Other Financing Sources (Uses):				
Sale of capital assets				
Transfers in	1,081,515			
Transfers out				
Total Other Financing Sources (Uses)	1,081,515			
Net Change in Fund Balances	43,596	(138,634)	973,577	(356,874)
Fund Balances at Beginning of Fiscal Year	477,040	4,443,186	621,625	524,541
Fund Balances at End of Year	\$ 520,636	\$ 4,304,552	\$ 1,595,202	\$ 167,667

Capital Projects Funds				Permanent Fund	Total Nonmajor Governmental Funds
Public Safety Facilities	General Capital Project	County Transportation Street Projects	Public Facilities	Daley Ranch	
\$	\$	\$ 3,091,906	\$	\$	\$ 3,091,906
					10,005,457
			229,270		5,013,025
					5,796,337
375	21,134	3,027	69,927	2,210	467,326
	275,866			4,166	895,225
375	297,000	3,094,933	299,197	6,376	25,269,276
	226,342				226,342
	113,670				1,707,555
	12,782	2,848,845			5,375,707
	79,589		219,293		5,894,494
	104,026				534,104
	785,835	894,330	243,871		5,550,440
					2,505,185
					3,737,237
	1,322,244	3,743,175	463,164		25,531,064
375	(1,025,244)	(648,242)	(163,967)	6,376	(261,788)
					1,060,000
	400,000		1,000,000		2,696,364
	(61,306)				(2,904,706)
	338,694		1,000,000		851,658
375	(686,550)	(648,242)	836,033	6,376	589,870
75,320	2,440,670	1,421,721	4,224,382	216,352	39,516,637
\$ 75,695	\$ 1,754,120	\$ 773,479	\$ 5,060,415	\$ 222,728	\$ 40,106,507

CITY OF ESCONDIDO
Street Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Intergovernmental	\$ 4,275,000	\$ 4,624,581	\$ 349,581
Charges for services	721,500	299,169	(422,331)
Investment income	23,300	94,836	71,536
Total Revenues	5,019,800	5,018,586	(1,214)
Expenditures:			
Public works	3,986,374	1,224,663	(2,761,711)
Community development	672,141	10,262	(661,879)
Capital outlay	3,009,094	604,947	(2,404,147)
Total Expenditures	7,667,609	1,839,872	(5,827,737)
(Deficiency) of Revenues Over Expenditures	(2,647,809)	3,178,714	5,826,523
Other Financing (Uses):			
Transfers out	(2,055,000)	(2,055,000)	
Net Change in Fund Balance	(4,702,809)	1,123,714	5,826,523
Fund Balance at Beginning of Year	5,059,018	5,059,018	
Fund Balance at End of Year	\$ 356,209	\$ 6,182,732	\$ 5,826,523

CITY OF ESCONDIDO
Parks and Recreation Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Intergovernmental	\$ 845,740	\$ 768,915	\$ (76,825)
Charges for services	3,405,320	2,701,212	(704,108)
Investment income	60,700	65,921	5,221
Miscellaneous	553,580	595,877	42,297
Total Revenues	4,865,340	4,131,925	(733,415)
Expenditures:			
Community services	4,738,960	4,454,119	(284,841)
Capital outlay	653,715	13,810	(639,905)
Debt Service:			
Principal retirements	5,185	5,185	
Total Expenditures	5,397,860	4,473,114	(924,746)
Excess of Revenues Over Expenditures	(532,520)	(341,189)	191,331
Other Financing Sources (Uses):			
Sale of capital assets	1,060,000	1,060,000	
Transfers in	133,984	133,984	
Transfers out	(741,600)	(741,600)	
Total Other Financing Sources	452,384	452,384	
Net Change in Fund Balance	(80,136)	111,195	191,331
Fund Balance at Beginning of Year	2,329,709	2,329,709	
Fund Balance at End of Year	\$ 2,249,573	\$ 2,440,904	\$ 191,331

CITY OF ESCONDIDO
Community Development Block Grant Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Intergovernmental	\$ 1,482,970	\$ 1,940,652	\$ 457,682
Miscellaneous		13,495	13,495
Total Revenues	1,482,970	1,954,147	471,177
Expenditures:			
Public works	53,556	53,556	
Community services	1,325,225	1,106,610	(218,615)
Community development	200,000	122,643	(77,357)
Capital outlay	1,335,776	911,723	(424,053)
Total Expenditures	2,914,557	2,194,532	(720,025)
Net Change in Fund Balance	(1,431,587)	(240,385)	1,191,202
Fund Balance at Beginning of Year	(12,046)	(12,046)	
Fund Balance at End of Year	\$ (1,443,633)	\$ (252,431)	\$ 1,191,202

CITY OF ESCONDIDO
Landscape and Assessment District Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Special assessments	\$ 749,220	\$ 749,328	\$ 108
Investment income	2,300	7,348	5,048
Miscellaneous	5,760	5,760	
Total Revenues	757,280	762,436	5,156
Expenditures:			
Public works	907,275	671,927	(235,348)
Net Change in Fund Balance	(149,995)	90,509	240,504
Fund Balance at Beginning of Year	805,250	805,250	
Fund Balance at End of Year	<u>\$ 655,255</u>	<u>\$ 895,759</u>	<u>\$ 240,504</u>

CITY OF ESCONDIDO
HOME Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Intergovernmental	\$ 406,865	\$ 195,676	\$ (211,189)
Investment income	500	129,633	129,133
Total Revenues	407,365	325,309	(82,056)
Expenditures:			
Community development	186,605	237,208	50,603
Net Change in Fund Balance	220,760	88,101	(132,659)
Fund Balance at Beginning of Year	16,759,028	16,759,028	
Fund Balance at End of Year	<u>\$ 16,979,788</u>	<u>\$ 16,847,129</u>	<u>\$ (132,659)</u>

CITY OF ESCONDIDO
Miscellaneous Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Intergovernmental	\$ 33,811	\$ 143,427	\$ 109,616
Charges for services	109,600	26,021	(83,579)
Investment income	6,830	4,472	(2,358)
Miscellaneous	61	61	61
Total Revenues	150,241	173,981	23,740
Expenditures:			
Public works	182,528	105,750	(76,778)
Community services	286,500	34,883	(251,617)
Community development	273,727	59,965	(213,762)
Capital outlay	109,250	26,938	(82,312)
Total Expenditures	852,005	227,536	(624,469)
Excess (Deficiency) of Revenues Over Expenditures	(701,764)	(53,555)	648,209
Other Financing Sources (Uses):			
Transfers in			
Transfers out	(46,800)	(46,800)	
Total Other Financing Sources	(46,800)	(46,800)	
Net Change in Fund Balance	(748,564)	(100,355)	648,209
Fund Balance at Beginning of Year	492,766	492,766	
Fund Balances at End of Year	\$ (255,798)	\$ 392,411	\$ 648,209

CITY OF ESCONDIDO
Vehicle Parking District Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Investment income	\$ 200	\$ 90	\$ (110)
Expenditures:			
Public works	77,000	74,627	(2,373)
Excess (Deficiency) of Revenues Over Expenditures	(76,800)	(74,537)	2,263
Other Financing Sources (Uses):			
Transfers in	76,800	76,800	
Net Change in Fund Balance		2,263	2,263
Fund Balance at Beginning of Year	(626,643)	(626,643)	
Fund Balances at End of Year	<u>\$ (626,643)</u>	<u>\$ (624,380)</u>	<u>\$ 2,263</u>

CITY OF ESCONDIDO
Golf Course Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Investment income	\$ 840	\$ 623	\$ (217)
Expenditures:			
Principal retirements	800,000	800,000	
Interest and fiscal charges	238,385	238,542	157
Total Expenditures	1,038,385	1,038,542	157
(Deficiency) of Revenues Over Expenditures	(1,037,545)	(1,037,919)	(374)
Other Financing Sources:			
Transfers in	1,081,515	1,081,515	
Total Other Financing Sources	1,081,515	1,081,515	
Net Change in Fund Balance	43,970	43,596	(374)
Fund Balance at Beginning of Year	477,040	477,040	
Fund Balance at End of Year	\$ 521,010	\$ 520,636	\$ (374)

CITY OF ESCONDIDO
General Obligation Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2014

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Special assessments	\$ 5,062,335	\$ 5,047,009	\$ (15,326)
Investment income	14,500	13,052	(1,448)
Total Revenues	<u>5,076,835</u>	<u>5,060,061</u>	<u>(16,774)</u>
Expenditures:			
Principal retirements	1,700,000	1,700,000	
Interest and fiscal charges	3,498,745	3,498,695	(50)
Total Expenditures	<u>5,198,745</u>	<u>5,198,695</u>	<u>(50)</u>
Net Change in Fund Balance	(121,910)	(138,634)	(16,724)
Fund Balance at Beginning of Year	<u>4,443,186</u>	<u>4,443,186</u>	
Fund Balance at End of Year	<u><u>\$ 4,321,276</u></u>	<u><u>\$ 4,304,552</u></u>	<u><u>\$ (16,724)</u></u>



INTERNAL SERVICE FUNDS

BUILDING MAINTENANCE FUND

This fund was created to account for financial activity related to the maintenance and repair of all City-owned buildings. Funding is provided through charges to other departments, based on square footage, common area allocation, and specific maintenance projects. A reserve for replacement will be accumulated to replace carpeting, air conditioning, roofing and other maintenance items.

VEHICLE AND EQUIPMENT MAINTENANCE FUND

This fund was created to account for transactions related to the maintenance, operation, and replacement of the City's vehicles, whereby the City can more accurately determine the full cost of services. Such costs to other departments are billed through charges to departments in the form of a rental payment for each piece of equipment.

CENTRAL SERVICES FUND

This fund was created to account for transactions related to:

- The provision of postage, telephone, and copying services. Funding is provided through charges to other departments based on actual usage.
- The provision of a central stores warehouse. Funding is provided through charges to user departments.

OFFICE AUTOMATION FUND

This fund was created to account for financial activity related to Office Automation services, licensing and hardware. Funding is provided through charges to other departments based on workstation inventory.

WORKERS' COMPENSATION FUND

This fund was created to account for transactions related to the City's self-insurance provision of Workers' Compensation insurance. Funding is provided through charges to other departments based on payroll expense.

GENERAL LIABILITY SELF-INSURANCE FUND

This fund was created to account for transactions related to the City's self-insurance provision of general liability insurance. Funding is provided through charges to other departments based on future risk evaluation, prior claims experience, and other factors.

INTERNAL SERVICE FUNDS

(Continued)

INSURANCE FUND

This fund was created to account for transactions related to:

- The provision of health and life insurance for City employees. Funding is provided through charges to other departments and employee contributions based on employee participation.
- The provision of vision insurance to City employees. Funding is provided by employees through payroll deductions.
- Property insurance obtained for the City. Funding is provided through charges to other departments based on replacement cost of the property and square footage allocations.
- The provision of dental insurance to City employees. Funding is provided through charges to other departments and employee contributions based on employee participation.
- The provision of unemployment insurance. Funding is provided through charges to other departments based on payroll expense.

CITY OF ESCONDIDO
Combining Statement of Net Position
Internal Service Funds
June 30, 2014

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 587,839	\$ 7,534,606	\$ 910,375
Receivables:			
Accounts		16,707	
Interest	2,218	27,194	3,376
Inventory		143,800	302,063
Deposits			
Total Current Assets	<u>590,057</u>	<u>7,722,307</u>	<u>1,215,814</u>
Non-current assets:			
Capital Assets:			
Buildings	1,150,795	342,000	61,070
Equipment	903,311	27,743,599	49,588
Construction in progress	12,397		
Total Capital Assets	<u>2,066,503</u>	<u>28,085,599</u>	<u>110,658</u>
Less accumulated depreciation	<u>(1,027,087)</u>	<u>(22,178,642)</u>	<u>(95,274)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>1,039,416</u>	<u>5,906,957</u>	<u>15,384</u>
Total Assets	<u>1,629,473</u>	<u>13,629,264</u>	<u>1,231,198</u>
<u>Liabilities</u>			
Current Liabilities:			
Payables:			
Accounts	141,923	114,165	134,498
Employee leave benefits	10,745	5,218	220
Estimated claims			
Loans	81,229		
Accrued expenses	26,961	19,634	3,363
Total Current Liabilities	<u>260,858</u>	<u>139,017</u>	<u>138,081</u>
Noncurrent Liabilities:			
Payables:			
Employee leave benefits	96,702	46,964	1,978
Estimated claims			
Loans	662,397		
Total Noncurrent Liabilities	<u>759,099</u>	<u>46,964</u>	<u>1,978</u>
Total Liabilities	<u>1,019,957</u>	<u>185,981</u>	<u>140,059</u>
<u>Net Position</u>			
Net investment in capital assets	1,039,416	5,906,957	15,384
Unrestricted (deficit)	<u>(429,900)</u>	<u>7,536,326</u>	<u>1,075,755</u>
Total Net Position	<u>\$ 609,516</u>	<u>\$ 13,443,283</u>	<u>\$ 1,091,139</u>

Office Automation	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
\$ 58,973	\$ 7,800,209	\$ 3,306,092	\$ 1,221,820	\$ 21,419,914
126	28,382	12,623	43,202 3,213	59,909 77,132
<u>59,099</u>	<u>250,000</u> <u>8,078,591</u>	<u>3,318,715</u>	<u>62,600</u> <u>1,330,835</u>	<u>445,863</u> <u>312,600</u> <u>22,315,418</u>
176,223				1,553,865 28,872,721 12,397
<u>176,223</u> <u>(62,742)</u>				<u>30,438,983</u> <u>(23,363,745)</u>
<u>113,481</u> <u>172,580</u>				<u>7,075,238</u> <u>29,390,656</u>
5,765	125,298 141	145,918	66,124 426	733,691 16,750
<u>17,470</u>	<u>1,932,800</u> <u>1,559</u>	<u>977,312</u>	<u>23,398</u>	<u>2,910,112</u> <u>81,229</u> <u>92,385</u>
<u>23,235</u>	<u>2,059,798</u>	<u>1,123,230</u>	<u>89,948</u>	<u>3,834,167</u>
	1,266 7,731,200	3,909,247	3,829	150,739 11,640,447 662,397
	<u>7,732,466</u>	<u>3,909,247</u>	<u>3,829</u>	<u>12,453,583</u>
<u>23,235</u>	<u>9,792,264</u>	<u>5,032,477</u>	<u>93,777</u>	<u>16,287,750</u>
113,481 35,864	(1,713,673)	(1,713,762)	1,237,058	7,075,238 6,027,668
<u>\$ 149,345</u>	<u>\$ (1,713,673)</u>	<u>\$ (1,713,762)</u>	<u>\$ 1,237,058</u>	<u>\$ 13,102,906</u>

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2014

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services
Operating Revenues:			
Charges for services	\$ 3,188,200	\$ 5,379,980	\$ 1,278,869
Operating Expenses:			
Personnel services	1,709,763	1,000,032	218,305
Administrative expenses	15,284	10,760	
Benefit claims			
Supplies	103,151	41,559	97,727
Repairs and maintenance	101,012	793,735	71,297
Depreciation	128,207	1,844,755	4,548
Utilities	761,510	4,130	419,011
Fuel		1,267,187	
Professional services	1,312,458	39,125	243,453
Insurance premiums	46,065	32,910	11,275
Rent	1,284		
Other		41,186	151,130
Total Operating Expenses	4,178,734	5,075,379	1,216,746
Operating Income (Loss)	(990,534)	304,601	62,123
Non-Operating Revenues (Expenses):			
Investment income	4,092	65,236	10,614
Interest and fiscal charges	(30,985)		
Miscellaneous	465	157,516	2,506
Total Non-Operating Revenues	(26,428)	222,752	13,120
Income (Loss) Before Transfers and Capital Contributions	(1,016,962)	527,353	75,243
Transfers in	1,151,000	1,100,000	
Transfers out			(449,100)
Capital contributions		171,989	
Change in Net Position	134,038	1,799,342	(373,857)
Net Position at Beginning of Year	475,478	11,643,941	1,464,996
Net Position at End of Year	\$ 609,516	\$ 13,443,283	\$ 1,091,139

Office Automation	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
\$ 1,462,781	\$ 1,881,363	\$ 2,189,331	\$ 10,367,325	\$ 25,747,849
1,037,871	101,320		158,005	4,225,296
	308,150	1,302,930	196,445	1,833,569
	859,854	583,208	674,690	2,117,752
43,470	822		2,503	289,232
148			1,018	967,210
31,858				2,009,368
12,416	1,904		9,275	1,208,246
				1,267,187
	1,904,978	1,705,568	150,926	5,356,508
10,560	472,400	568,794	9,253,661	10,395,665
				1,284
336,704	5,494	15,474	37,858	587,846
1,473,027	3,654,922	4,175,974	10,484,381	30,259,163
(10,246)	(1,773,559)	(1,986,643)	(117,056)	(4,511,314)
1,006	48,029	14,943	7,919	151,839
				(30,985)
			29,108	189,595
1,006	48,029	14,943	37,027	310,449
(9,240)	(1,725,530)	(1,971,700)	(80,029)	(4,200,865)
22,600				2,273,600
				(449,100)
				171,989
13,360	(1,725,530)	(1,971,700)	(80,029)	(2,204,376)
135,985	11,857	257,938	1,317,087	15,307,282
\$ 149,345	\$ (1,713,673)	\$ (1,713,762)	\$ 1,237,058	\$ 13,102,906

CITY OF ESCONDIDO
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services
Cash flows from Operating Activities:			
Cash received from customers	\$ 3,188,200	\$ 5,365,686	\$ 1,278,869
Cash paid to employees for services	(1,701,503)	(1,007,409)	(225,466)
Cash paid to other suppliers of goods or services	(2,244,431)	(2,532,308)	(1,001,209)
Cash from other sources	465	39,846	
Net Cash Provided by (Used for) Operating Activities	<u>(757,269)</u>	<u>1,865,815</u>	<u>52,194</u>
Cash Flows from Noncapital Financing Activities:			
Cash received from other funds	1,151,000	1,100,000	
Cash paid from other funds			(449,100)
Net Cash Provided by Noncapital Financing Activities	<u>1,151,000</u>	<u>1,100,000</u>	<u>(449,100)</u>
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	(189,399)	(2,066,528)	(8,455)
Sale of capital assets		103,722	2,506
Interest payments on loans	(30,985)		
Principal payments on loans	(78,200)		
Net Cash (Used for) Capital and Related Financing Activities	<u>(298,584)</u>	<u>(1,962,806)</u>	<u>(5,949)</u>
Cash Flows from Investing Activities:			
Investment income received	<u>5,338</u>	<u>65,035</u>	<u>12,490</u>
Net Increase (Decrease) in Cash and Cash Equivalents	100,485	1,068,044	(390,365)
Cash and Cash Equivalents at Beginning of Year	<u>487,354</u>	<u>6,466,562</u>	<u>1,300,740</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 587,839</u></u>	<u><u>\$ 7,534,606</u></u>	<u><u>\$ 910,375</u></u>

Office Automation	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
\$ 1,462,781	\$ 1,881,363	\$ 2,189,331	\$ 10,389,121	\$ 25,755,351
(1,035,073)	(409,103)	(1,302,930)	(387,301)	(6,068,785)
(405,199)	(2,844,904)	(2,308,438)	(10,093,726)	(21,430,215)
			29,108	69,419
22,509	(1,372,644)	(1,422,037)	(62,798)	(1,674,230)
22,600				2,273,600
				(449,100)
22,600				1,824,500
(30,809)				(2,295,191)
				106,228
				(30,985)
				(78,200)
(30,809)				(2,298,148)
936	58,706	22,949	8,903	174,357
15,236	(1,313,938)	(1,399,088)	(53,895)	(1,973,521)
43,737	9,114,147	4,705,180	1,275,715	23,393,435
\$ 58,973	\$ 7,800,209	\$ 3,306,092	\$ 1,221,820	\$ 21,419,914

(Continued)

CITY OF ESCONDIDO
Combining Statement of Cash Flows
Internal Service Funds (Continued)
For the Year Ended June 30, 2014

	<u>Building Maintenance</u>	<u>Vehicle and Equipment Maintenance</u>	<u>Central Services</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (990,534)	\$ 304,601	\$ 62,123
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation expense	128,207	1,844,755	4,548
Cash from other sources	465	39,846	
Change in assets and liabilities:			
(Increase) decrease in accounts receivable		(14,294)	
(Increase) in inventories		(2,590)	(20,805)
Increase (decrease) in accounts payable	81,049	(309,886)	13,489
Increase (decrease) in accrued expenses	3,088	1,639	746
Increase (decrease) in employee leave benefits payable	20,456	1,744	(7,907)
Increase in estimated claims payable			
Total Adjustments	<u>233,265</u>	<u>1,561,214</u>	<u>(9,929)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (757,269)</u>	<u>\$ 1,865,815</u>	<u>\$ 52,194</u>
Noncash Investing, Capital and Financing Activities:			
Contributed property, plant and equipment		<u>\$ 171,989</u>	

<u>Office Automation</u>	<u>Workers' Compensation</u>	<u>General Liability Self-Insurance</u>	<u>Insurance</u>	<u>Total</u>
<u>\$ (10,246)</u>	<u>\$ (1,773,559)</u>	<u>\$ (1,986,643)</u>	<u>\$ (117,056)</u>	<u>\$ (4,511,314)</u>
31,858				2,009,368
			29,108	69,419
			21,796	7,502
				(23,395)
(1,901)	125,263	125,389	36,205	69,608
2,798	31		(30,134)	(21,832)
	336		(2,717)	11,912
	<u>275,285</u>	<u>439,217</u>		<u>714,502</u>
<u>32,755</u>	<u>400,915</u>	<u>564,606</u>	<u>54,258</u>	<u>2,837,084</u>
<u>\$ 22,509</u>	<u>\$ (1,372,644)</u>	<u>\$ (1,422,037)</u>	<u>\$ (62,798)</u>	<u>\$ (1,674,230)</u>
				<u>\$ 171,989</u>

AGENCY FUNDS

HIDDEN TRAILS COMMUNITY FACILITIES DISTRICT

This fund was created to account for debt service payments on 1982 Mello-Roos Community Facility Act special tax bonds paid from special taxes collected and remitted to a fiscal agent. The bonds were issued to finance the acquisition of certain backbone public facilities including street, water and sewer facilities in the Hidden Trails Community Facilities District.

EUREKA RANCH COMMUNITY FACILITIES DISTRICT

This fund was created to account for debt service payments on 1982 Mello-Roos Community Facility Act special tax bonds paid from special taxes collected and remitted to a fiscal agent. The bonds were issued to finance various public improvements including street, storm drain and sewer improvements as well as utility undergrounding within the Eureka Ranch Community Facilities District.

AUTO PARKWAY ASSESSMENT DISTRICT FUND

This fund was created to account for debt service payments on 1915 Act Assessment bonds paid from special assessments collected and remitted to a fiscal agent-trustee. The bonds were issued to finance capital improvements in the Auto Parkway District, including drainage and road improvements, sewer, lighting, and other improvements.

RANCHO SAN PASQUAL FUND

This fund was created to account for the debt service payments collected directly from property owners and remitted to bondholders for payment on Rancho San Pasqual bonds, issued to finance certain public improvements within the City's Assessment District No. 95-1.

DEPOSIT TRUST FUND

This fund was created to account for deposits received and held by the City as an agent for individuals, developers, private organizations, and other governmental agencies.

CITY OF ESCONDIDO
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2014

	Hidden Trails Community Facilities District	Eureka Ranch Community Facilities District	Auto Parkway Assessment District	Rancho San Pasqual	Deposit Trust	Total
<u>Assets</u>						
Cash and investments	\$ 176,061	\$ 832,940	\$ 297,171	\$ 256,768	\$ 5,643,506	\$ 7,206,446
Cash and investments with fiscal agent	9,998	1,217,269	335,379	341,543		1,904,189
Receivables:						
Interest	471	6,269	1,892	1,858	495	10,985
Taxes	1,155			713		1,868
	<u>187,685</u>	<u>2,056,478</u>	<u>634,442</u>	<u>600,882</u>	<u>5,644,001</u>	<u>9,123,488</u>
Total Assets	<u>\$ 187,685</u>	<u>\$ 2,056,478</u>	<u>\$ 634,442</u>	<u>\$ 600,882</u>	<u>\$ 5,644,001</u>	<u>\$ 9,123,488</u>
<u>Liabilities</u>						
Accounts payable	\$	\$	\$	\$	\$ 267,609	\$ 267,609
Deposits payable					5,376,392	5,376,392
Due to bondholders	187,685	2,056,478	634,442	600,882		3,479,487
	<u>187,685</u>	<u>2,056,478</u>	<u>634,442</u>	<u>600,882</u>	<u>5,644,001</u>	<u>9,123,488</u>
Total Liabilities	<u>\$ 187,685</u>	<u>\$ 2,056,478</u>	<u>\$ 634,442</u>	<u>\$ 600,882</u>	<u>\$ 5,644,001</u>	<u>\$ 9,123,488</u>

CITY OF ESCONDIDO
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2014

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
<u>Hidden Trails Community Facilities District</u>				
<u>Assets</u>				
Cash and investments	\$ 170,352	\$ 217,825	\$ (212,116)	\$ 176,061
Restricted assets:				
Cash and investments with fiscal agent	229,965	5,452,035	(5,672,002)	9,998
Receivables:				
Interest	791	471	(791)	471
Taxes	832	1,155	(832)	1,155
	<u>401,940</u>	<u>5,671,486</u>	<u>(5,885,741)</u>	<u>187,685</u>
Total Assets	<u>\$ 401,940</u>	<u>\$ 5,671,486</u>	<u>\$ (5,885,741)</u>	<u>\$ 187,685</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 512,537	\$ (512,537)	\$
Due to bondholders	401,940	2,687,912	(2,902,167)	187,685
	<u>401,940</u>	<u>3,200,449</u>	<u>(3,414,704)</u>	<u>187,685</u>
Total Liabilities	<u>\$ 401,940</u>	<u>\$ 3,200,449</u>	<u>\$ (3,414,704)</u>	<u>\$ 187,685</u>
<u>Eureka Ranch Community Facilities District</u>				
<u>Assets</u>				
Cash and investments	\$ 852,902	\$ 1,216,809	\$ (1,236,771)	\$ 832,940
Restricted assets:				
Cash and investments with fiscal agent	1,233,242	7,969	(23,942)	1,217,269
Receivables:				
Interest	3,973	6,269	(3,973)	6,269
Taxes	3,823		(3,823)	
	<u>2,093,940</u>	<u>1,231,047</u>	<u>(1,268,509)</u>	<u>2,056,478</u>
Total Assets	<u>\$ 2,093,940</u>	<u>\$ 1,231,047</u>	<u>\$ (1,268,509)</u>	<u>\$ 2,056,478</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 1,228,558	\$ (1,228,558)	\$
Due to bondholders	2,093,940	1,640,199	(1,677,661)	2,056,478
	<u>2,093,940</u>	<u>2,868,757</u>	<u>(2,906,219)</u>	<u>2,056,478</u>
Total Liabilities	<u>\$ 2,093,940</u>	<u>\$ 2,868,757</u>	<u>\$ (2,906,219)</u>	<u>\$ 2,056,478</u>

CITY OF ESCONDIDO
Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
For the Year Ended June 30, 2014

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
<u>Auto Parkway Assessment District</u>				
<u>Assets</u>				
Cash and investments	\$ 287,890	\$ 343,094	\$ (333,813)	\$ 297,171
Restricted assets:				
Cash and investments with fiscal agent	335,813	2,185	(2,619)	335,379
Receivables:				
Interest	1,168	1,892	(1,168)	1,892
Total Assets	<u>\$ 624,871</u>	<u>\$ 347,171</u>	<u>\$ (337,600)</u>	<u>\$ 634,442</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 331,234	\$ (331,234)	\$
Due to bondholders	624,871	604,632	(595,061)	634,442
Total Liabilities	<u>\$ 624,871</u>	<u>\$ 935,866</u>	<u>\$ (926,295)</u>	<u>\$ 634,442</u>
<u>Rancho San Pasqual</u>				
<u>Assets</u>				
Cash and investments	\$ 252,062	\$ 351,178	\$ (346,472)	\$ 256,768
Restricted assets:				
Cash and investments with fiscal agent	342,557	2,226	(3,240)	341,543
Receivables:				
Interest	1,166	1,858	(1,166)	1,858
Taxes	1,442	713	(1,442)	713
Total Assets	<u>\$ 597,227</u>	<u>\$ 355,975</u>	<u>\$ (352,320)</u>	<u>\$ 600,882</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 343,788	\$ (343,788)	\$
Due to bondholders	597,227	521,736	(518,081)	600,882
Total Liabilities	<u>\$ 597,227</u>	<u>\$ 865,524</u>	<u>\$ (861,869)</u>	<u>\$ 600,882</u>

(Continued)

CITY OF ESCONDIDO
Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
For the Year Ended June 30, 2014

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
<u>Deposit Trust</u>				
<u>Assets</u>				
Cash and investments	\$ 5,625,944	\$ 1,482,818	\$ (1,465,256)	\$ 5,643,506
Receivables:				
Interest	562	495	(562)	495
Total Assets	<u>\$ 5,626,506</u>	<u>\$ 1,483,313</u>	<u>\$ (1,465,818)</u>	<u>\$ 5,644,001</u>
<u>Liabilities</u>				
Accounts payable	\$ 52,697	\$ 1,398,171	\$ (1,183,259)	\$ 267,609
Deposits payable	5,573,809	1,527,251	(1,724,668)	5,376,392
Total Liabilities	<u>\$ 5,626,506</u>	<u>\$ 2,925,422</u>	<u>\$ (2,907,927)</u>	<u>\$ 5,644,001</u>
 <u>Total Agency Funds</u>				
<u>Assets</u>				
Cash and investments	\$ 7,189,150	\$ 3,611,724	\$ (3,594,428)	\$ 7,206,446
Restricted assets:				
Cash and investments with fiscal agent	2,141,577	5,464,415	(5,701,803)	1,904,189
Receivables:				
Interest	7,660	10,985	(7,660)	10,985
Taxes	6,097	1,868	(6,097)	1,868
Total Assets	<u>\$ 9,344,484</u>	<u>\$ 9,088,992</u>	<u>\$ (9,309,988)</u>	<u>\$ 9,123,488</u>
<u>Liabilities</u>				
Accounts payable	\$ 52,697	\$ 3,301,751	\$ (3,086,839)	\$ 267,609
Deposits payable	5,573,809	1,527,251	(1,724,668)	5,376,392
Due to bondholders	3,717,978	5,454,479	(5,692,970)	3,479,487
Total Liabilities	<u>\$ 9,344,484</u>	<u>\$ 10,283,481</u>	<u>\$ (10,504,477)</u>	<u>\$ 9,123,488</u>

Statistical Section



STATISTICAL SECTION

This section of the City of Escondido's comprehensive annual financial report provides detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

FINANCIAL TRENDS INFORMATION

These schedules are intended to assist users in understanding and assessing how a government's financial position has changed over time.

REVENUE CAPACITY INFORMATION

These schedules are intended to assist users in understanding and assessing factors affecting a government's ability to generate its own revenue.

DEBT CAPACITY INFORMATION

These schedules are intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules are intended to assist users in understanding the socioeconomic environment within which a government operates and provide information that facilitates comparison of financial statement information over time and among governments.

OPERATING INFORMATION

These schedules are intended to provide information about operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

CITY OF ESCONDIDO
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	2005	2006	2007	2008
Governmental Activities:				
Net investment in capital assets	\$ 125,179,668	\$ 147,033,475	\$ 175,696,600	\$ 197,917,746
Restricted	66,200,766	69,207,183	77,955,931	83,690,162
Unrestricted	63,198,878	67,952,345	80,216,675	65,128,364
Total Governmental Activities Net Position	\$ 254,579,312	\$ 284,193,003	\$ 333,869,206	\$ 346,736,272
Business-type Activities:				
Net investment in capital assets	\$ 85,789,505	\$ 94,483,383	\$ 118,573,025	\$ 123,532,924
Restricted				
Unrestricted	32,141,690	37,421,108	26,761,762	30,304,352
Total Business-type Activities Net Position	\$ 117,931,195	\$ 131,904,491	\$ 145,334,787	\$ 153,837,276
Primary Government:				
Net investment in capital assets	\$ 210,969,173	\$ 241,516,858	\$ 294,269,625	\$ 321,450,670
Restricted	66,200,766	69,207,183	77,955,931	83,690,162
Unrestricted	95,340,568	105,373,453	106,978,437	95,432,716
Total Primary Government Activities Net Position	\$ 372,510,507	\$ 416,097,494	\$ 479,203,993	\$ 500,573,548

Source:

City of Escondido Finance Department.

2009	2010	2011	2012	2013	2014
\$ 198,895,947	\$ 205,646,459	\$ 222,661,354	\$ 225,296,741	\$ 211,228,317	\$ 207,003,751
89,093,908	114,214,410	86,393,247	98,970,485	90,152,311	92,356,580
65,461,162	36,921,478	40,341,057	53,862,572	27,922,604	24,555,904
<u>\$ 353,451,017</u>	<u>\$ 356,782,347</u>	<u>\$ 349,395,658</u>	<u>\$ 378,129,798</u>	<u>\$ 329,303,232</u>	<u>\$ 323,916,235</u>
\$ 126,868,016	\$ 130,301,709	\$ 137,189,496	\$ 138,580,703	\$ 141,057,087	\$ 151,539,613
37,096,093	46,473,299	53,436,660	56,358,559	61,147,031	57,540,105
<u>\$ 163,964,109</u>	<u>\$ 176,775,008</u>	<u>\$ 190,626,156</u>	<u>\$ 194,939,262</u>	<u>\$ 202,204,118</u>	<u>\$ 209,079,718</u>
\$ 325,763,963	\$ 335,948,168	\$ 359,850,850	\$ 363,877,444	\$ 352,285,404	\$ 358,543,364
89,093,908	114,214,410	86,393,247	98,970,485	90,152,311	92,356,580
102,557,255	83,394,777	93,777,717	110,221,131	89,069,635	82,096,009
<u>\$ 517,415,126</u>	<u>\$ 533,557,355</u>	<u>\$ 540,021,814</u>	<u>\$ 573,069,060</u>	<u>\$ 531,507,350</u>	<u>\$ 532,995,953</u>

CITY OF ESCONDIDO
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	2005	2006	2007	2008
<u>Expenses</u>				
Governmental Activities:				
General government	\$ 7,846,655	\$ 7,899,175	\$ 8,373,054	\$ 9,646,524
Public safety	49,039,038	52,318,975	53,981,546	57,284,755
Community services	15,620,848	11,298,631	15,004,608	29,728,378
Public works	17,609,107	24,150,012	24,159,197	18,340,037
Community development	8,383,779	10,067,992	12,635,417	13,974,447
Contributions to other governments				
Interest and fiscal charges	7,692,898	7,313,735	10,447,184	14,338,384
Total Governmental Activities Expenses	106,192,325	113,048,520	124,601,006	143,312,525
Business-type Activities:				
Water	32,110,409	33,612,785	37,583,686	37,989,541
Wastewater	23,596,832	22,619,254	24,660,271	26,995,420
Golf	102,235			
Total Business-type Activities Expenses	55,809,476	56,232,039	62,243,957	64,984,961
Total Primary Government Expenses	\$ 162,001,801	\$ 169,280,559	\$ 186,844,963	\$ 208,297,486
<u>Program Revenues</u>				
Governmental activities:				
Charges for services:				
General government	\$ 262,617	\$ 207,933	\$ 277,178	\$ 290,007
Public safety	8,130,038	9,053,779	9,702,964	9,241,808
Community services	3,409,784	3,922,815	4,222,222	6,864,643
Public works	2,665,396	3,300,443	1,556,038	1,411,020
Community development	2,200,680	3,026,817	2,148,321	1,507,452
Operating grants and contributions	9,537,429	15,336,026	29,978,774	15,513,780
Capital grants and contributions	19,127,256	16,511,533	19,574,286	9,042,570
Total Governmental Activities Program Revenues	45,333,200	51,359,346	67,459,783	43,871,280
Business-type Activities:				
Charges for services:				
Water	29,932,089	34,092,368	39,087,592	38,944,163
Wastewater	16,230,386	20,368,422	22,643,416	23,699,984
Golf				
Operating grants and contributions				2,657,685
Capital grants and contributions	5,838,768	13,978,586	11,036,390	3,554,975
Total Business-type Activities Program Revenues	52,001,243	68,439,376	72,767,398	68,856,807
Total Primary Government Program Revenues	\$ 97,334,443	\$ 119,798,722	\$ 140,227,181	\$ 112,728,087

2009	2010	2011	2012	2013	2014
\$ 8,183,784	\$ 8,058,408	\$ 8,162,775	\$ 7,923,896	\$ 6,931,282	\$ 6,817,120
53,639,237	58,486,106	56,170,547	60,467,057	58,937,215	64,735,010
20,460,103	20,321,281	13,935,737	14,428,323	13,492,016	13,824,749
23,475,660	25,927,953	30,251,264	23,508,515	28,719,020	22,830,644
12,777,932	7,814,707	9,908,625	6,765,185	6,095,723	4,442,510
				4,319,291	
8,050,461	7,649,971	7,459,498	5,946,168	4,038,630	3,709,135
126,587,177	128,258,426	125,888,446	119,039,144	122,533,177	116,359,168
38,810,712	40,277,313	37,364,315	43,537,887	48,899,219	51,937,493
24,743,922	24,154,671	23,833,875	23,995,887	25,847,825	28,748,596
63,554,634	64,431,984	61,198,190	67,533,774	74,747,044	80,686,089
\$ 190,141,811	\$ 192,690,410	\$ 187,086,636	\$ 186,572,918	\$ 197,280,221	\$ 197,045,257
\$ 455,029	\$ 159,353	\$ 351,155	\$ 735,395	\$ 481,812	\$ 1,049,402
9,980,199	9,207,628	8,273,579	8,429,675	8,322,729	8,217,629
6,798,670	5,625,758	3,871,455	4,158,173	4,118,332	4,104,210
1,253,367	1,076,721	994,907	1,160,643	1,261,705	1,554,453
1,128,602	1,372,001	1,154,371	820,337	914,370	1,351,882
9,728,353	14,568,341	12,988,723	13,503,657	12,507,289	13,031,177
11,779,461	14,818,607	10,550,030	5,608,064	8,528,675	3,331,901
41,123,681	46,828,409	38,184,220	34,415,944	36,134,912	32,640,654
39,161,082	40,155,208	37,293,900	42,398,099	48,857,327	54,411,250
25,741,913	29,208,703	28,176,381	26,430,851	28,482,081	29,413,549
301,875				6,559	243,302
4,725,698	5,851,309	8,922,144	2,155,659	3,858,657	1,879,809
69,930,568	75,215,220	74,392,425	70,984,609	81,204,624	85,947,910
\$ 111,054,249	\$ 122,043,629	\$ 112,576,645	\$ 105,400,553	\$ 117,339,536	\$ 118,588,564

(Continued)

CITY OF ESCONDIDO
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	2005	2006	2007	2008
<u>Net (Expense)/Revenue</u>				
Governmental activities	\$ (60,859,125)	\$ (61,689,174)	\$ (57,141,223)	\$ (99,441,245)
Business-type activities	(3,808,233)	12,207,337	10,523,441	3,871,846
Total Primary Government Net Expense	<u>\$ (64,667,358)</u>	<u>\$ (49,481,837)</u>	<u>\$ (46,617,782)</u>	<u>\$ (95,569,399)</u>
<u>General Revenues and Other</u>				
<u>Changes in Net Position</u>				
Governmental activities:				
Taxes:				
Sales taxes	\$ 30,336,573	\$ 30,002,918	\$ 28,419,440	\$ 24,471,382
Property taxes	26,392,928	30,556,891	39,320,532	43,123,943
Franchise tax	3,930,492	4,241,212	4,625,383	4,088,986
Payments in lieu of taxes	18,130,405	15,974,459	21,162,788	20,550,985
Other taxes	4,506,357	4,900,694	5,419,437	4,801,752
Use of money and property	4,019,491	4,025,320	7,341,621	14,217,786
Sale of capital assets				
Miscellaneous	675,801	1,400,371	526,770	971,977
Transfers	(29,253)	201,000	1,455	81,500
Extraordinary item: Gain/(loss) (Note 17)				
Total Governmental Activities	<u>87,962,794</u>	<u>91,302,865</u>	<u>106,817,426</u>	<u>112,308,311</u>
Business-type activities:				
Use of money and property	1,483,411	1,675,819	2,708,150	3,497,943
Miscellaneous	357,270	291,140	200,160	1,214,200
Transfers	29,253	(201,000)	(1,455)	(81,500)
Extraordinary item: Loss on chemical tank spill				
Total Business-type Activities	<u>1,869,934</u>	<u>1,765,959</u>	<u>2,906,855</u>	<u>4,630,643</u>
Total Primary Government	<u>\$ 89,832,728</u>	<u>\$ 93,068,824</u>	<u>\$ 109,724,281</u>	<u>\$ 116,938,954</u>
<u>Change in Net Position</u>				
Governmental activities	\$ 27,103,669	\$ 29,613,691	\$ 49,676,203	\$ 12,867,066
Business-type activities	(1,938,299)	13,973,296	13,430,296	8,502,489
Total primary government	<u>\$ 25,165,370</u>	<u>\$ 43,586,987</u>	<u>\$ 63,106,499</u>	<u>\$ 21,369,555</u>

Source:

City of Escondido Finance Department.

2009	2010	2011	2012	2013	2014
\$ (85,463,496)	\$ (81,430,017)	\$ (87,704,226)	\$ (84,623,200)	\$ (86,398,265)	\$ (83,718,514)
6,375,934	10,783,236	13,194,235	3,450,835	6,457,580	5,261,821
<u>\$ (79,087,562)</u>	<u>\$ (70,646,781)</u>	<u>\$ (74,509,991)</u>	<u>\$ (81,172,365)</u>	<u>\$ (79,940,685)</u>	<u>\$ (78,456,693)</u>
\$ 18,841,244	\$ 17,826,617	\$ 20,819,517	\$ 25,532,055	\$ 24,202,373	\$ 27,366,084
37,745,185	27,884,137	28,168,365	24,060,363	16,738,501	16,805,289
4,540,227	4,344,355	4,461,129	4,563,576	4,516,247	4,694,252
18,907,389	17,989,533	17,652,114	19,548,954	19,041,332	20,075,228
4,264,906	4,014,349	4,048,337	2,899,789	3,971,585	4,218,914
6,977,368	4,654,030	4,810,578	5,885,611	3,290,477	4,153,899
		171,386	399,819		
872,722	2,130,400	476,135	748,181	1,070,052	892,851
29,200	41,330	1,248,845	25,000	25,000	125,000
			29,693,992	(34,948,363)	
<u>92,178,241</u>	<u>78,884,751</u>	<u>81,856,406</u>	<u>113,357,340</u>	<u>37,907,204</u>	<u>78,331,517</u>
2,791,475	1,794,117	1,608,420	1,750,475	1,522,495	1,577,693
988,624	274,876	297,338	250,862	447,638	161,086
(29,200)	(41,330)	(1,248,845)	(25,000)	(25,000)	(125,000)
			(1,114,066)		
<u>3,750,899</u>	<u>2,027,663</u>	<u>656,913</u>	<u>862,271</u>	<u>1,945,133</u>	<u>1,613,779</u>
<u>\$ 95,929,140</u>	<u>\$ 80,912,414</u>	<u>\$ 82,513,319</u>	<u>\$ 114,219,611</u>	<u>\$ 39,852,337</u>	<u>\$ 79,945,296</u>
\$ 6,714,745	\$ (2,545,266)	\$ (5,847,820)	\$ 28,734,140	\$ (48,491,061)	\$ (5,386,997)
10,126,833	12,810,899	13,851,148	4,313,106	8,402,713	6,875,600
<u>\$ 16,841,578</u>	<u>\$ 10,265,633</u>	<u>\$ 8,003,328</u>	<u>\$ 33,047,246</u>	<u>\$ (40,088,348)</u>	<u>\$ 1,488,603</u>

CITY OF ESCONDIDO
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2005	2006	2007	2008
General Fund				
Reserved	\$ 12,000,715	\$ 11,979,933	\$ 11,981,270	\$ 10,149,296
Unreserved, designated	34,886,626	33,314,688	39,074,546	36,201,191
Unreserved, undesignated	2,213,347	5,618,069	18,267	31,478
Nonspendable				
Committed to				
Assigned to				
Unassigned				
Total General Fund	\$ 49,100,688	\$ 50,912,690	\$ 51,074,083	\$ 46,381,965
All Other Governmental Funds				
Reserved	\$ 51,100,638	\$ 59,867,398	\$ 70,384,963	\$ 79,272,342
Reserved for current projects, reported in:				
Special revenue funds	8,357,924	8,779,174	3,343,847	4,409,890
Capital projects funds	24,682,928	23,071,427	111,342,705	83,750,017
Unreserved, reported in:				
Special revenue funds	1,469,997	753,179	3,886,179	903,378
Capital projects funds	648,746	232,743	4,519,393	4,822,008
Undesignated, reported in:				
Special revenue funds		580,649	638,880	17,198
Capital projects funds	(149,480)	(2,050,830)	(653,000)	
Nonspendable				
Restricted for				
Committed to				
Assigned to				
Unassigned				
Total All Other Governmental Funds	\$ 86,110,753	\$ 91,233,740	\$ 193,462,967	\$ 173,174,833

Note:

The City of Escondido implemented GASB 54 for the fiscal year ended June 30, 2011 and has elected not to restate fund balance amounts in previous years.

Source:

City of Escondido Finance Department.

2009	2010	2011	2012	2013	2014
\$ 10,763,636	\$ 10,331,307	\$	\$	\$	\$
30,001,183	21,694,390				
360,555					
		5,456,377	5,180,347	2,503,401	217,690
		28,354,588	31,938,244	17,210,596	17,319,659
		713,361	852,481	980,678	897,465
		399,790	753,121	247,130	1,753,519
<u>\$ 41,125,374</u>	<u>\$ 32,025,697</u>	<u>\$ 34,924,116</u>	<u>\$ 38,724,193</u>	<u>\$ 20,941,805</u>	<u>\$ 20,188,333</u>
\$ 90,244,472	\$ 91,342,926	\$	\$	\$	\$
4,506,647	3,005,679				
38,533,362	9,407,468				
1,656,500	4,762,099				
6,609,031	8,691,702				
612,564	1,097,044				
		61,204,587	57,982,791	60,199,844	
		21,732,085	30,695,122	20,785,893	81,559,045
		8,418,117	5,208,585	2,466,775	2,008,525
		774,990	447,148	159,405	139,653
		(14,547,286)	(1,021,715)	(1,248,533)	(1,149,954)
<u>\$ 142,162,576</u>	<u>\$ 118,306,918</u>	<u>\$ 77,582,493</u>	<u>\$ 93,311,931</u>	<u>\$ 82,363,384</u>	<u>\$ 82,557,269</u>

CITY OF ESCONDIDO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2005	2006	2007	2008
<u>Revenues</u>				
Taxes	\$ 71,655,717	\$ 77,734,043	\$ 81,151,830	\$ 80,426,993
Licenses and permits	948,731	1,466,492	1,192,210	1,083,012
Fines and forfeits	2,345,309	2,591,254	3,438,103	2,775,808
Intergovernmental	20,636,158	25,479,372	24,847,891	24,981,294
Charges for services	13,808,460	17,159,737	28,652,127	14,534,487
Special assessments	486,509	534,503	5,977,365	6,114,007
Lease income	41,674	74,598	67,842	65,380
Investment income	2,925,655	2,945,448	10,853,706	17,189,718
Miscellaneous	6,377,728	4,870,084	4,460,671	6,037,085
Total Revenues	119,225,941	132,855,531	160,641,745	153,207,784
<u>Expenditures</u>				
General government	6,099,209	6,794,411	7,255,759	9,127,482
Public safety	48,378,236	51,915,935	55,236,173	57,495,217
Public works	9,819,464	10,950,990	15,876,014	16,530,427
Community services	11,485,472	12,161,879	13,644,105	19,136,835
Community development	5,429,443	6,857,595	6,266,748	7,484,775
Contributions to other governments				
Capital outlay	15,289,826	19,826,969	21,588,318	46,039,380
Debt service:				
Principal retirements	9,439,275	10,011,703	9,014,873	5,893,863
Interest and fiscal charges	3,564,360	3,314,576	6,000,362	14,271,646
SERAF payment	1,371,088	1,333,226		
Cost of issuance			1,838,207	
Payment to refunding				
bond escrow agent			9,331,468	
Agency tax sharing agreement	2,502,874	2,867,983	3,280,870	3,697,911
Total Expenditures	113,379,247	126,035,267	149,332,897	179,677,536
Excess (Deficiency) of Revenues Over Expenditures	5,846,694	6,820,264	11,308,848	(26,469,752)
<u>Other Financing Sources (Uses)</u>				
Issuance of debt			140,900,000	2,050,000
Bond issue costs				
Payment to refunding escrow agent			(52,543,700)	
Premium of debt			3,366,017	
Sale of capital assets	91,102	851,185		
Transfers in	7,748,864	10,491,946	17,333,710	12,095,699
Transfers out	(8,287,087)	(12,628,406)	(17,974,255)	(12,656,199)
Total Other Financing Sources (Uses)	(447,121)	(1,285,275)	91,081,772	1,489,500
Extraordinary item: Gain/(loss)				
Net Change in Fund Balance	\$ 5,399,573	\$ 5,534,989	\$ 102,390,620	\$ (24,980,252)
Debt service as a percentage of noncapital expenditures	13.3%	12.5%	11.8%	15.1%

Source:

City of Escondido Finance Department.

	2009	2010	2011	2012	2013	2014
\$	74,152,418	\$ 66,166,696	\$ 69,907,949	\$ 65,556,779	\$ 53,387,010	\$ 57,289,455
	984,790	1,350,224	1,193,338	821,380	887,383	991,164
	2,552,099	2,186,227	1,895,447	1,640,528	1,468,309	1,184,292
	24,161,739	26,889,870	26,688,728	27,513,328	25,945,352	23,708,589
	14,518,395	12,759,043	9,976,316	10,281,595	11,335,203	12,513,585
	5,560,064	5,742,487	5,759,888	5,892,241	5,958,662	5,796,337
	48,743	47,609	75,321	60,024	221,513	205,259
	5,993,386	2,301,810	16,367,414	1,469,849	856,466	895,826
	6,211,906	8,177,104	4,253,232	4,432,737	4,645,031	4,265,979
	<u>134,183,540</u>	<u>125,621,070</u>	<u>136,117,633</u>	<u>117,668,461</u>	<u>104,704,929</u>	<u>106,850,486</u>
	6,908,388	6,761,408	7,096,148	6,407,543	5,834,828	5,811,016
	54,009,216	55,863,025	52,038,011	53,083,126	55,246,097	57,874,021
	15,116,819	15,364,185	18,146,072	12,542,175	17,392,655	15,189,340
	17,849,432	18,114,581	12,072,344	12,016,459	11,815,547	12,128,504
	10,003,869	5,132,958	7,165,632	4,774,106	5,331,818	4,238,194
					4,319,291	
	47,671,550	28,777,524	26,536,515	9,153,723	7,794,450	5,550,440
	6,233,746	9,653,787	10,760,000	10,512,620	7,528,360	2,528,361
	7,922,238	7,585,243	23,952,729	5,792,921	3,983,078	3,737,237
		8,556,226	1,761,576			
	5,448,326	3,817,295	9,101,406	5,921,213		
	<u>171,163,584</u>	<u>159,626,232</u>	<u>168,630,433</u>	<u>120,203,886</u>	<u>119,246,124</u>	<u>107,057,113</u>
	<u>(36,980,044)</u>	<u>(34,005,162)</u>	<u>(32,512,800)</u>	<u>(2,535,425)</u>	<u>(14,541,195)</u>	<u>(206,627)</u>
				224,078	4,830,000	
					(122,073)	
	681,996		463,018	474,819	111,234	1,346,540
	9,445,273	9,195,181	28,486,232	8,237,198	6,522,962	5,035,243
	(9,416,073)	(8,873,851)	(25,059,387)	(8,062,198)	(6,673,765)	(6,734,743)
	<u>711,196</u>	<u>321,330</u>	<u>3,889,863</u>	<u>873,897</u>	<u>4,668,358</u>	<u>(352,960)</u>
				21,191,043	(9,832,652)	
\$	<u>(36,268,848)</u>	<u>(33,683,832)</u>	<u>(28,622,937)</u>	<u>\$ 19,529,515</u>	<u>\$ (19,705,489)</u>	<u>\$ (559,587)</u>
	11.5%	13.2%	24.4%	14.7%	10.3%	6.2%

CITY OF ESCONDIDO
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30	Secured ⁽¹⁾				Total
	Residential	Commercial	Industrial	Other	
2005 ⁽²⁾	\$	\$	\$	\$	\$ 9,175,561,577
2006					10,557,048,856
2007	8,504,862,463	696,109,094	630,995,760	1,605,438,683	11,437,406,000
2008	9,296,316,740	810,686,675	689,162,975	1,753,357,367	12,549,523,757
2009	9,294,002,418	887,735,198	727,933,450	1,837,063,300	12,746,734,366
2010	8,231,590,550	939,687,068	734,423,838	1,918,881,771	11,824,583,227
2011	8,055,721,483	927,680,780	735,847,485	1,940,187,481	11,659,437,229
2012	8,250,098,328	915,511,275	704,991,571	1,890,820,616	11,761,421,790
2013	8,311,628,639	883,780,782	690,353,003	1,902,605,041	11,788,367,465
2014	8,565,684,527	874,571,529	684,905,167	1,989,341,749	12,114,502,972

Fiscal Year Ended June 30	Unsecured	Less: Exemptions	Taxable	Total
			Assessed Value	Direct Tax Rate
2005 ⁽²⁾	\$ 258,794,691	\$ (383,405,102)	\$ 9,050,951,166	0.103
2006	291,432,112	(405,785,782)	10,442,695,186	0.103
2007	420,118,000	(408,095,000)	11,449,429,000	0.103
2008	465,923,040	(425,349,881)	12,590,096,916	0.103
2009	457,803,566	(507,352,437)	12,697,185,495	0.103
2010	486,166,246	(587,494,693)	11,723,254,780	0.103
2011	462,394,959	(587,861,385)	11,533,970,803	0.103
2012	455,849,872	(597,181,491)	11,620,090,171	0.103
2013	462,158,958	(612,709,744)	11,637,816,679	0.103
2014	465,412,975	(622,608,050)	11,957,307,897	0.103

Notes:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

(1) Includes City of Escondido and Community Development Commission assessed values.

(2) Assessed value by major component is not available for fiscal years 2002/03 to FY 2005/06

Source:

County of San Diego Auditor and Controller's Office.

CITY OF ESCONDIDO
Direct and Overlapping Property Tax Rates
(Rate per \$100 of assessed value)
Last Ten Fiscal Years

Allocation of 1% Ad Valorem Property Taxes								
Fiscal Year Ended June 30	City Direct Rate*	Total Direct Rate	Overlapping Rates			Voter Approved Debt	Total Tax Rate	
			School District	San Diego County	All Other			
2005	0.103 %	0.103 %	0.710 %	0.157 %	0.030 %	1.000 %	0.066 %	1.066 %
2006	0.103	0.103	0.710	0.157	0.030	1.000	0.072	1.072
2007	0.103	0.103	0.710	0.157	0.030	1.000	0.115	1.115
2008	0.103	0.103	0.710	0.157	0.030	1.000	0.112	1.112
2009	0.103	0.103	0.710	0.157	0.030	1.000	0.117	1.117
2010	0.103	0.103	0.710	0.157	0.030	1.000	0.125	1.125
2011	0.103	0.103	0.710	0.157	0.030	1.000	0.139	1.139
2012	0.103	0.103	0.710	0.157	0.030	1.000	0.140	1.140
2013	0.103	0.103	0.710	0.157	0.030	1.000	0.141	1.141
2014	0.103	0.103	0.710	0.157	0.030	1.000	0.132	1.132

Note:

* The City Direct Rate is the total direct rate to the city general fund.

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within.

Source:

County of San Diego Auditor and Controller's Office.
 TRA 004-013 is represented in this table

CITY OF ESCONDIDO
Principal Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	2014		2005	
	Taxable Assessed Value	Percentage of Total Taxable Assessed Value ⁽¹⁾	Taxable Assessed Value	Percentage of Total Taxable Assessed Value ⁽²⁾
North County Fair LLC	\$241,191,837	2.02 %	\$156,849,354	1.72 %
Prebys Conrad Trust	87,707,026	0.73	54,919,073	0.60
M G Morning View Apts L P	47,687,853	0.40		
Cox Communications San Diego	30,322,985	0.25	44,470,021	0.49
Frit Escondido Promenade, LLC	43,991,480	0.37	25,688,501	0.28
Vons	29,583,349	0.25	31,618,199	0.35
Luna Properties LLC	41,295,463	0.35		
O C/S D Holdings LLC	34,814,252	0.29		
Garrick Motors Inc	38,023,980	0.32	21,379,436	0.23
Felicita Garp L L C	30,737,700	0.26		
Goal Line L P			57,876,341	0.64
Aimco Sunset Escondido LLC			23,127,643	0.25
New Albertsons Inc			21,768,702	0.24
Morning View Terrace			20,429,070	0.22
TOTAL	\$625,355,925	5.24 %	\$458,126,340	5.02 %

Notes:

(1) Net assessed valuation for 2013-14 is \$11,957,307,897

(2) Net assessed valuation for 2004-05 is \$9,106,340,924

Source:

City of Escondido Finance Department & County Assessor

CITY OF ESCONDIDO
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2005	\$ 8,592,735	\$ 8,074,890	93.97 %	\$ 122,320	\$ 8,197,210	95.40 %
2006	10,090,319	9,520,693	94.35	200,970	9,721,663	96.35
2007	10,867,792	10,233,625	94.16	230,682	10,464,307	96.29
2008	11,218,291	10,495,467	93.56	299,605	10,795,072	96.23
2009	10,560,667	10,048,236	95.15	419,191	10,467,427	99.12
2010	9,477,871	9,086,734	95.87	372,031	9,458,765	99.80
2011	9,382,618	9,097,417	96.96	247,404	9,344,821	99.60
2012	9,536,098	9,288,990	97.41	168,496	9,457,486	99.18
2013	9,720,947	9,489,467	97.62	155,805	9,645,271	99.22
2014	10,099,951	9,834,962	97.38	126,961	9,961,923	98.63

Notes:

The amounts presented do not include property taxes collected for the Community Development Commission in the following amounts: 2003/04 - \$12,704,173, 2004/05 - \$14,287,104, 2005/06 - \$16,364,873, 2006/07 - \$18,343,838, 2007/08 - \$21,069,222, 2008/09 - \$21,374,963, 2009/10 - \$19,863,033, and 2010/11 - \$19,092,408. The Community Development Commission was dissolved in fiscal year 2011/12.

The amounts collected in subsequent years do not include penalties and interest from fiscal year 2007 forward.

Source:

County of San Diego Auditor and Controller's Office.

CITY OF ESCONDIDO
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities						
	(1) General Obligation Bonds	(2,3,4,5,6,10, 17, 20) Lease Revenue Bonds	(3) Certificates of Participation	(4, 18) Tax Allocation Bonds	(2,7,8,16, 21) Loans Payable	Capital Leases Payable	Total Governmental Activities
2005	\$	\$ 88,980,733	\$ 4,605,000	\$ 12,085,203	\$ 4,131,369	\$ 476,207	\$ 110,278,512
2006		83,571,167	4,290,000	10,580,371	5,463,369	281,243	104,186,150
2007	84,350,000	74,400,000	3,950,000	9,002,298	5,484,285	93,895	177,280,478
2008	83,180,000	72,000,000	3,585,000	7,346,752	7,435,425		173,547,177
2009	81,800,000	69,605,000	3,190,000	5,609,556	7,297,585		167,502,141
2010	80,360,000	63,995,000	2,760,000	3,786,572	7,113,854		158,015,426
2011	78,860,000	56,000,000	2,295,000	4,033,736	6,246,320		147,435,056
2012	77,295,000	5,320,000	1,790,000		6,398,573		90,803,573
2013	75,665,000	4,830,000	1,240,000		994,926		82,729,926
2014	73,965,000	4,625,000	645,000		888,366		80,123,366

Notes:

- (1) In FY 2007, the City issued \$84,350,000 of new GO bonds for the construction of the new Public Safety Facilities.
- (2) Beginning net assets were restated in the June 30, 2003 financial statements for accretion of capital appreciation on lease revenue bonds and on loans payable. The above figures reflect the lease revenue and loans payable balances as they should have been reported in the financial statements prior to restatement in Fiscal Year 2003.
- (3) The 1991 certificates of participation were refunded with the 1999 lease revenue bonds in FY 1999.
- (4) The 1992 tax allocation bonds were refunded with 2001 lease revenue bonds in FY 2002. All 2001 lease revenue bonds have matured as of FY 2012.
- (5) Lease revenue bonds of \$6,195,000 were transferred from an enterprise fund to a debt service fund in FY 2005.
- (6) The 1995 lease revenue bonds were refunded with the 2007 lease revenue bonds in FY 2007.
- (7) The City received loans from the California Housing Finance Agency of \$800,000 in FY 2002, \$1,850,000 in FY 2004, \$1,400,000 in FY 2006, and \$2,050,000 in FY 2008.
- (8) The City received a loan from the California Energy Commission in FY 2005.
- (9) In FY 2000, the City issued the 2000 water revenue certificates of participation which refunded the 1996 water revenue bonds and funded new capital improvement projects.
- (10) The City issued the \$6,300,000 2001 JPFA Lease Revenue Bonds (Reidy Creek Project) in FY 2001.
- (11) The City issued \$9,170,000 of new water revenue certificates of participation in FY 2003.
- (12) The 1996 wastewater certificates of participation were refunded with the 2004A wastewater certificates of participation in FY 2005.
- (13) The City issued \$10,775,000 of new wastewater certificates of participation in FY 2005.
- (14) The City received loan advances from the State Water Resources Control Board revolving loan fund from FY 2000 to FY 2012. Repayment of the loans began in FY 2002.
- (15) The 2000A water revenue certificates of participation were partially refunded (\$12,410,000) in FY 2008 with the \$30,440,000 issue of the 2007 series water revenue certificates of participation. The remaining \$9,830,000 outstanding 2000A certificates (as of April 2012) were refunded with the issue of \$31,660,000 of 2012 JPFA Water and \$27,390,00 of JPFA Wastewater Revenue bonds.
- (16) The City received installment loans from San Diego Gas and Electric in FY 2012.
- (17) 2007A & B lease revenue bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012
- (18) 1992 tax allocation bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

Business-type Activities						
(5,9,11,12,13,15,19)		(14)				
Revenue COP & Lease Revenue Bonds	Special Tax/Assessment Bonds	Loans Payable	Total Business Activities	Total Primary Government	Percentage of Personal Income	Debt Per Capita
\$ 73,340,000	\$ 75,000	\$ 34,420,708	\$ 107,835,708	\$ 218,114,220	4.84	1,554
72,120,000	60,000	33,986,247	106,166,247	210,352,397	4.62	1,494
70,350,000	40,000	31,988,970	102,378,970	279,659,448	8.74	1,972
86,515,000	20,000	29,990,130	116,525,130	290,072,307	9.11	2,023
84,450,000		27,987,565	112,437,565	279,939,706	8.14	1,954
82,315,000		25,981,179	108,296,179	266,311,605	7.66	1,832
80,095,000		26,507,579	106,602,579	254,037,635	8.97	1,750
118,420,000		24,715,177	143,135,177	233,938,750	7.80	1,602
115,975,000		22,585,446	138,560,446	221,290,372	7.28	1,517
113,075,000		20,448,701	133,523,701	213,647,067	6.65	1,452

(19) The 2002A water revenue certificates of participation, in the remaining outstanding amount of \$8,585,000, were refunded with the April 2012 issue of \$31,660,000 of 2012 JPFA Water Revenue bonds.

(20) The 2001 JPFA Lease Revenue Bonds (Reidy Creek Project), in the remaining outstanding amount of \$5,205,000 were refunded with \$4,830,000 from the March 2013 issue of JPFA Lease Revenue Refunding Bonds, Series 2013A, and the remaining \$540,000 of Reserve funds from the 2001 JPFA issue.

(21) The \$5,300,000 remaining balance of California Housing Finance Agency loan obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency in FY 2013, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

Source:
City of Escondido Finance Department.

CITY OF ESCONDIDO
Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year Ended June 30	Outstanding General Obligation Bonded Debt				Percent of Assessed Value ⁽¹⁾	Per Capita	
	General Obligation Bonds	Certificates of Participation	Tax Allocation Bonds ⁽²⁾	Total			
2005	\$	\$ 4,605,000	\$ 12,085,203	\$ 16,690,203	1.17	119	
2006			4,290,000	10,580,371	14,870,371	0.94	105
2007	84,350,000	3,950,000	9,002,298	97,302,298	1.10	686	
2008	83,180,000	3,585,000	7,346,752	94,111,752	1.32	656	
2009	81,800,000	3,190,000	5,609,556	90,599,556	0.77	632	
2010	80,360,000	2,760,000	3,786,572	86,906,572	0.74	598	
2011	78,860,000	2,295,000	4,033,736	85,188,736	0.74	587	
2012	77,295,000	1,790,000		79,085,000	0.68	541	
2013	75,665,000	1,240,000		76,905,000	0.66	527	
2014	73,965,000	645,000		74,610,000	0.64	507	

Notes:

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

(2) 1992 Tax Allocation Bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Direct and Overlapping Debt
For the Year Ended June 30, 2014

2013-14 Assessed Valuation:	\$ 12,306,747,917
Redevelopment Agency Incremental Valuation:	2,465,229,401
Adjusted Assessed Valuation:	\$ 9,841,518,516

	Percentage Applicable ⁽¹⁾	Outstanding Debt 6/30/14	Estimated Share of Overlapping Debt
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	0.560 %	\$ 132,275,000	\$ 740,740
Palomar Community College District	13.186	312,768,901	41,241,707
San Marcos Unified School District School	3.583	281,096,744	10,071,696
San Marcos Unified School District School Facilities Improvement District No. 1	2.235	6,503,019	145,342
San Marcos Unified School District Community Facilities District No. 1	100.000	640,000	640,000
Escondido Union High School District	78.002	97,117,515	75,753,604
Escondido Union School District	78.773	41,259,622	32,501,442
San Pasqual Union School District	56.685	458,792	260,066
Valley Center-Pauma Unified School District	0.001	1,190,669	12
Total Overlapping Tax and Assessment Debt		873,310,262	161,354,609
<u>OVERLAPPING GENERAL OBLIGATION DEBT:</u>			
San Diego County General Fund Obligations	3.115	379,835,000	11,831,860
San Diego County Pension Obligations	3.115	720,855,256	22,454,641
San Diego County Superintendent of School Obligations	3.115	16,125,000	502,294
Palomar Community College District Certificates of Participation	13.186	4,855,000	640,180
San Marcos Unified School General Fund Obligations	3.583	55,093,327	1,973,994
Escondido Union High School District Certificates of Participation	78.002	59,525,000	46,430,691
Escondido Union School District Certificates of Participation	78.773	20,490,000	16,140,588
Palomar Pomerado Hospital District	19.155	474,823,578	90,952,456
Total Overlapping General Fund Obligation Debt		1,731,602,161	190,926,704
<u>OVERLAPPING TAX INCREMENT DEBT:</u>			
Escondido Tax Allocation Bonds			
Escondido Lease Revenue Bonds	100.000	32,070,000	32,070,000
Total Overlapping Tax Increment Debt		32,070,000	32,070,000
TOTAL OVERLAPPING DEBT		\$ 2,636,982,423	\$ 384,351,313
<u>CITY DIRECT DEBT:</u>			
City of Escondido General Fund Obligations	100.000 %	73,965,000	73,965,000
City of Escondido General Obligations	100.000	5,270,000	5,270,000
City of Escondido Hidden Trails Community Facilities District	100.000	2,355,000	2,355,000
City of Escondido Community Facilities District 2006-01	100.000	16,200,000	16,200,000
City of Escondido 1915 Act Bonds	100.000	4,465,000	4,465,000
TOTAL CITY DIRECT DEBT		102,255,000	102,255,000
TOTAL DIRECT AND OVERLAPPING DEBT			\$ 486,606,313 ⁽²⁾

Notes:

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of each of the overlapping district's assessed value that is within the City's boundaries and dividing it by the district's total taxable assessed value.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: MuniServices, LLC.

CITY OF ESCONDIDO
Legal Debt Margin Information
Last Ten Fiscal Years

	2005	2006	2007	2008
Assessed valuation	\$ 7,557,521,777	\$ 8,716,447,815	\$ 9,842,664,350	\$ 10,437,917,513
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	\$ 1,889,380,444	\$ 2,179,111,954	\$ 2,460,666,088	\$ 2,609,479,378
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	283,407,067	326,866,793	369,099,913	391,421,907
Total Net Debt				
General Obligation Bonds			84,350,000	83,180,000
Applicable to Limit:				
Legal Debt Margin	<u>\$ 283,407,067</u>	<u>\$ 326,866,793</u>	<u>\$ 284,749,913</u>	<u>\$ 308,241,907</u>
Total Debt Applicable to the Limit as a Percentage of Debt Limit	0%	0%	23%	21%

Note:

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within that state.

Source:

City of Escondido Finance Department.

2009	2010	2011	2012	2013	2014
\$ 10,419,201,152	\$ 9,608,214,935	\$ 9,501,563,129	\$ 9,663,353,864	\$ 9,674,335,352	\$ 9,841,518,516
<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
\$ 2,604,800,288	\$ 2,402,053,734	\$ 2,375,390,782	\$ 2,415,838,466	\$ 2,418,583,838	\$ 2,460,379,629
<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
390,720,043	360,308,060	356,308,617	362,375,770	362,787,576	369,056,944
81,800,000	80,360,000	78,860,000	77,295,000	75,665,000	73,965,000
<u>\$ 308,920,043</u>	<u>\$ 279,948,060</u>	<u>\$ 277,448,617</u>	<u>\$ 285,080,770</u>	<u>\$ 287,122,576</u>	<u>\$ 295,091,944</u>
21%	22%	22%	21%	21%	20%

CITY OF ESCONDIDO
Pledged-Revenue Coverage
Last Ten Fiscal Years

1999 Lease Revenue Bonds

Fiscal Year Ended June 30	Low/Mod Tax Increment & Other Revenue	Less: Housing Fund Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 4,243,671	\$ 942,754	\$ 3,300,917	\$ 1,025,000	\$ 90,900	2.96
2006	6,083,947	1,303,187	4,780,760	1,310,000	42,983	3.53
2007 ⁽²⁾						
2008						
2009						
2010						
2011						
2012						
2013						
2014						

2001 Lease Revenue Bonds

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 411,683	\$	\$ 411,683	\$ 115,000	\$ 296,683	1.00
2006	422,395		422,395	130,000	292,395	1.00
2007	427,320		427,320	140,000	287,320	1.00
2008	431,520		431,520	150,000	281,520	1.00
2009	347,190		347,190	70,000	277,190	1.00
2010	354,300		354,300	80,000	274,300	1.00
2011	360,940		360,940	90,000	270,940	1.00
2012	367,015		367,015	100,000	267,015	1.00
2013	404,925		404,925	115,000	289,925	1.00
2014 ⁽⁶⁾						

1993 Certificates of Participation

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2004	\$ 686,788	\$	\$ 686,788	\$ 270,000	\$ 416,788	1.00
2005	684,870		684,870	290,000	394,870	1.00
2006	685,815		685,815	315,000	370,815	1.00
2007	684,445		684,445	340,000	344,445	1.00
2008	680,710		680,710	365,000	315,710	1.00
2009	679,352		679,352	395,000	284,352	1.00
2010	679,900		679,900	430,000	249,900	1.00
2011	677,310		677,310	465,000	212,310	1.00
2012	676,570		676,570	505,000	171,570	1.00
2013	677,260		677,260	550,000	127,260	1.00
2014	674,170		674,170	595,000	79,170	1.00

2013A Lease Revenue Refunding Bonds

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$	\$	\$	\$	\$	
2006						
2007						
2008						
2009						
2010						
2011						
2012						
2013	⁽⁶⁾ 404,925		404,925			n/a
2014	359,714		359,714	205,000	154,714	1.00

Water and Wastewater Revenue and Revenue Certificates of Participation

Fiscal Year Ended June 30	Charges for Services and Other Revenue	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 49,483,225	\$ 41,017,100	\$ 8,466,125	\$ 782,876	\$ 3,093,741	2.18
2006	63,178,518 ⁽¹⁾	44,933,767	18,244,751	1,235,000	3,985,477	3.49
2007	68,444,251	50,652,440	17,791,811	1,790,000	3,472,448	3.38
2008	70,037,925	53,617,950	16,419,975	14,295,000 ⁽³⁾	3,652,947	0.91
2009	71,613,953	51,599,265	20,014,688	2,065,000	4,011,542	3.29
2010	72,191,950	52,131,987	20,059,963	2,135,000	3,937,058	3.30
2011	67,713,179	49,064,535	18,648,644	2,220,000	3,852,716	3.07
2012	71,296,465	53,021,213	18,275,252	2,310,000 ⁽⁴⁾	4,020,204	2.89
2013	79,799,930	60,004,862	19,795,068	2,445,000 ⁽⁵⁾	5,169,939	2.60
2014	86,667,661	65,419,946	21,247,715	2,900,000	5,331,367	2.58

Special Assessment Debt - Auto Parkway

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2004	\$ 325,795	\$	\$ 325,795	\$ 150,000	\$ 185,994	0.97
2005	342,121		342,121	150,000	178,869	1.04
2006	309,955		309,955	160,000	171,349	0.94
2007	373,134		373,134	165,000	163,304	1.14
2008	324,507		324,507	175,000	154,760	0.98
2009	333,284		333,284	185,000	145,624	1.01
2010	335,748		335,748	195,000	135,422	1.02
2011	338,480		338,480	205,000	124,172	1.03
2012	347,187		347,187	215,000	112,359	1.06
2013	343,514		343,514	225,000	99,984	1.06
2014	347,171		347,171	240,000	86,906	1.06

CITY OF ESCONDIDO
Pledged-Revenue Coverage (continued)
Last Ten Fiscal Years

Special Assessment Debt - Hidden Trails

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 271,990	\$	\$ 271,990	\$ 45,000	\$ 180,113	1.21
2006	211,414		211,414	50,000	178,020	0.93
2007	580,694		580,694	50,000	175,708	2.57
2008	257,430		257,430	55,000	173,173	1.13
2009	240,612		240,612	65,000	170,423	1.02
2010	229,274		229,274	60,000	166,850	1.01
2011	238,709		238,709	75,000	162,900	1.00
2012	209,432		209,432	65,000	159,357	0.93
2013	229,435		229,435	70,000	155,610	1.02
2014	⁽⁷⁾ 227,470		227,470	75,000	130,338	1.11

Special Assessment Debt - Eureka Ranch

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$	\$	\$	\$	\$	
2006						
2007	2,031,526		2,031,526		302,325	6.72
2008	1,073,930		1,073,930		906,975	1.18
2009	1,451,135		1,451,135		906,975	1.60
2010	1,419,402		1,419,402	320,000	893,243	1.17
2011	1,182,479		1,182,479	330,000	879,630	0.98
2012	1,225,888		1,225,888	345,000	865,114	1.01
2013	1,252,550		1,252,550	360,000	849,600	1.04
2014	1,231,047		1,231,047	375,000	833,058	1.02

Special Assessment Debt - Rancho San Pasqual

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2004	\$ 396,183		\$ 396,183	\$ 95,000	\$ 255,368	1.13
2005	568,965		568,965	350,000	243,189	0.96
2006	341,255		341,255	100,000	231,313	1.03
2007	405,396		405,396	105,000	226,135	1.22
2008	343,088		343,088	115,000	220,468	1.02
2009	335,979		335,979	120,000	214,298	1.01
2010	351,695		351,695	125,000	207,774	1.06
2011	351,270		351,270	130,000	200,920	1.06
2012	357,610		357,610	140,000	193,595	1.07
2013	350,697		350,697	145,000	185,793	1.06
2014	355,975		355,975	155,000	177,543	1.07

Notes:

- (1) 2006 revenues reflect an increase in water sales, wastewater service charge rates, and recycled water sales and the inclusion of connection fees.
- (2) The 1999 Lease Revenue Bonds were paid during fiscal year 2006.
- (3) 2000A Series Water Revenue Certificates of Participation were partially refunded during fiscal year 2008.
- (4) The 2000A and 2002A Series Water Revenue Certificates of Participation were fully refunded during fiscal year 2012.
- (5) The 2012 Series Water Revenue Bonds and Wastewater Revenue Bonds were issued during fiscal year 2012.
- (6) The 2001 JPFA Lease Revenue Bonds Series Water Revenue Bonds were fully refunded during fiscal year 2013 with the issuance of the 2013A Series JPFA Lease Revenue Refunding Bonds.
- (7) The Special Tax Bonds for the CFD 2000-01 (Hidden Trails) were refunded in during fiscal year 2013 with the issuance of the 2013 Series Bonds.

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population ⁽¹⁾	Personal Income (in millions) ⁽²⁾	Per Capita Income ⁽²⁾	Unemployment Rate ⁽³⁾
2004	140,328	4,510	32,100	4.7
2005	140,803	4,550	32,300	4.3
2006	141,788	3,198	22,556	4.2
2007	143,389	3,182	22,198	4.8
2008	143,259	3,438	23,999	6.2
2009	145,388	3,477	23,914	10.1
2010	145,196	2,833	19,514	10.6
2011	146,064	2,999	20,536	9.9
2012	145,908	3,040	20,836	9.3
2013	147,102	3,214	21,851	7.9

Sources:

(1) California State Department of Finance Projections.

(2) United States Census data, adjusted for inflation. Fluctuation in per capita income from 2005 to 2006 is due to a change in source data.

(3) EDD Bureau of Labor Statistics Department.

CITY OF ESCONDIDO
Principal Employers
Current Year and Nine Years Ago

Employer	2014		2005	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment ⁽¹⁾
Palomar Medical Center	3,290	4.44 %	1,450	
Escondido Union School District	1,804	2.43	1,847	
Welk Group Inc	1,200	1.62		
San Diego Wild Animal Park	1,100	1.48		
City of Escondido	1,082	1.46	1,118	
Escondido Union High School District	861	1.16	750	
Vons Grocery Stores	360	0.49		
Home Depot ⁽³⁾	350	0.47		
Nordstrom Inc.	290	0.39	420	
Palomar Community College District	211	0.28		
North County Transit District			622	
ARS National Services Inc			520	
Coronado Funding Group			500	
SDG&E			400	
Pacific Bell			325	

Notes:

"Total Employment" as used above represents the total employment of all employers located within City limits.

(1) The percent of total employment for 2005 was unavailable.

(2) Number includes Escondido and San Diego County employees.

(3) Employee Count was confirmed for only one of the two Home Depot locations. Last years employee count was used again for the unattainable Home Depot.

Source:

MuniServices, LLC.

CITY OF ESCONDIDO
Full-time and Part-time City Employees by Function
Last Ten Fiscal Years
As of June 30

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government	108	113	120	118	112	110	109	106	108	111
Public Safety	362	374	404	397	377	381	375	360	374	383
Public Works	161	168	175	156	149	142	143	151	154	148
Community Development	51	55	58	53	42	39	38	37	35	36
Community Services	203	236	280	265	221	225	224	216	225	206
Housing & Neighborhood Services	11	11	13	13	13	14	15	12	10	10
Water	114	116	124	121	119	117	118	118	114	114
Wastewater	63	71	74	75	72	74	75	73	71	82
Total	1,073	1,144	1,248	1,198	1,105	1,102	1,097	1,073	1,091	1,090

Source:

City of Escondido Finance Department.



CITY OF ESCONDIDO
Operating Indicators by Function
Last Ten Fiscal Years

Function	2005	2006	2007	2008
Police:				
Physical Arrests	6,538	7,126	7,359	7,373
Traffic Violations	14,220	18,396	21,580	20,496
Parking Violations	6,530	8,075	8,909	8,295
Fire:				
Number of Calls Answered	10,547	10,416	10,515	10,650
Number of Inspections Conducted	780	1,851	1,880	1,738
Public Works⁽¹⁾:				
Street Resurfacing (miles)		2.5	4.5	2.3
Parks and Recreation⁽¹⁾:				
Number of Recreation Classes	1,124	1,093	832	977
Number of Facility Rentals	919	919	998	987
Golf Rounds Played	82,231	87,196	90,014	95,149
Water:				
Number of Service Connections	25,338	25,559	25,972	26,161
Average Daily Consumption (gallons)	25,608,270	27,285,671	27,301,940	25,500,000
Sewer:				
Number of Service Connections	25,338	26,190	26,503	26,702
Average Daily Treatment (gallons)	14,700,000	14,400,000	14,300,000	14,320,000

Note:

(1) No data was available for Public Works prior to 2006. A new registration process for recreation was implemented in 2013.

Source:

City of Escondido.

2009	2010	2011	2012	2013	2014
7,004	7,190	7,617	7,032	5,988	5,740
21,438	16,956	13,811	13,054	9,782	8,454
7,942	7,606	5,784	4,514	4,022	4,328
11,237	11,544	11,370	11,978	13,065	13,139
3,105	2,059	2,222	1,380	1,741	1,496
1.1	1.5	9.5	3.0	19.3	18.6
1,228	1,101	1,176	990	1,275	2,410
982	1,106	1,125	995	2,541	1,975
100,192	97,683	95,020	95,934	95,528	97,094
26,280	26,390	26,489	26,502	26,508	26,536
23,170,000	18,799,222	18,835,000	20,220,000	23,370,000	22,579,315
26,909	27,014	27,066	27,054	27,072	27,102
13,000,000	12,500,000	12,900,000	12,730,000	12,630,000	12,100,000

CITY OF ESCONDIDO
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2005	2006	2007	2008
Police:				
Stations	1	1	1	1
Fire:				
Stations	5	5	5	5
Public Works:				
Streets (miles)	291.3	295.3	299.2	302.0
Streetlights	4,595	4,749	5,691	6,382
Traffic Signals	111	117	126	135
Parks and Recreation:				
Parks	13	13	14	14
Community Centers	3	3	3	3
Golf Courses	2	2	2	2
Water:				
Water Mains (miles)	376	415	418	425
Maximum Daily Plant Capacity (gallons)	75,000,000	75,000,000	75,000,000	75,000,000
Sewer:				
Sanitary Sewers (miles)	362	369	375	375
Storm Drains (miles)	328	329	378	380
Maximum Daily Treatment Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000

Source:

City of Escondido.

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
1	1	1	1	1	1
7	7	7	7	7	7
302.0	304.4	304.6	304.9	305.0	305.0
6,408	6,460	6,479	6,480	6,479	6,487
139	146	148	148	151	152
14	14	14	14	14	14
3	3	3	3	3	3
2	2	2	2	2	2
429	430	430	430	431	431
75,000,000	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
375	351	352	355	363	379
380	380	381	383	382	377
18,000,000	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000





City of Escondido

CALIFORNIA



MAPLE STREET PLAZA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

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APPENDIX B

DEFINITIONS AND SUMMARY OF THE INDENTURE

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

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms defined in the Indenture, for all purposes of the Indenture and of any indenture supplemental thereto and of any certificate, opinion or other document therein mentioned, have the meanings therein specified, to be equally applicable to both the singular and plural forms of any of the terms therein defined.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Authority. The term "Authority" means the Escondido Joint Powers Financing Authority, a joint exercise of powers agency duly organized and existing under and by virtue of the laws of the State of California.

Authorized Representative. The term "Authorized Representative" means, with respect to the City, its Mayor, Vice Mayor, City Clerk, City Manager, Director of Administrative Services or any other person designated as an Authorized Representative of the City by a Certificate of the City signed by its Mayor, Vice Mayor, City Clerk, City Manager, Director of Administrative Services and filed with the Trustee.

Bond Counsel. The term "Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bonds. The term "Bonds" means all revenue bonds or notes of the City authorized, executed, issued and delivered by the City, the payments of which are payable from Net Revenues on a parity with the 2015 Bonds and which are secured by a pledge of and lien on Revenues as described in the Indenture.

Bond Year. The term "Bond Year" means the period beginning on the date of issuance of the 2015 Bonds and ending on September 1, 2015, and each successive one year or, during the last period prior to maturity, shorter period thereafter until there are no Outstanding 2015 Bonds.

Business Day. The term "Business Day" means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms "Certificate," "Direction," "Request" and "Requisition" of the City mean a written certificate, direction, request or requisition signed in the name of the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for in the Indenture.

City. The term "City" means City of Escondido, a municipal corporation duly organized and existing under and by virtue of the laws of the State.

Closing Date. The term "Closing Date" means the date on which the 2015 Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Certificate. The term “Continuing Disclosure Certificate” means the Continuing Disclosure Certificate, dated the Closing Date, of the City, as originally executed or as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term “Contracts” means all contracts of the City previously or later authorized and executed by the City, the payments under which are payable from Net Revenues on a parity with the 2015 Bonds and which are secured by a pledge and lien on Revenues as described in the Indenture, including the 2012 Installment Purchase Agreement and the State Loans; and excluding contracts entered into for operation and maintenance of the Wastewater System.

Date of Operation. The term “Date of Operation” means, with respect to any uncompleted component of a Parity Project, the estimated date by which such uncompleted component of a Parity Project will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the City.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of: (1) the interest payable during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program); (2) those portions of the principal amount of all outstanding serial Bonds maturing in such period; (3) those portions of the principal amount of all outstanding term Bonds required to be redeemed or paid in such period; and (4) those portions of the Contracts required to be made during such period, (except to the extent that the interest evidenced and represented thereby is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program); provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service will be the greater of: (a) the actual interest rate on such Bonds or Contracts on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding); (b) if the Bonds or Contracts have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation; and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations; or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of the additional debt test or rate covenant set forth in the Indenture, measuring actual debt service coverage during a test period, variable rate indebtedness will be deemed to bear interest at the actual rate per annum applicable during the test period; and provided further that, if any series or issue of such Bonds or Contracts have 25% or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 25 years from the date of calculation; and provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount will be treated as interest in the calculation of Debt Service; and provided further that, the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and provided further that, Debt Service will not include interest which is paid from investment earnings on amounts on deposit in reserve funds and transferred to the Payment Fund.

Depository; DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the 2015 Bonds.

Event of Default. The term “Event of Default” means any of the events specified as such in the Indenture.

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period later selected and designated as the official fiscal year period of the City.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of May 1, 2015, by and between the City and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the City, each of whom is independent of the City pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the City, which may, for purposes of the certification described in the definition of “Paired Obligations” be an interest rate swap adviser, and who, or each of whom: (1) is in fact independent and not under domination of the City; (2) does not have any substantial interest, direct or indirect, with the City; and (3) is not connected with the City as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may specify in a certificate to the Trustee and as the Trustee may select.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement described in the Indenture.

Interest Account. The term “Interest Account” means the account by that name in the Payment Fund established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means September 1, 2015 and each March 1 and September 1 thereafter.

Investment Agreement. The term “Investment Agreement” means an investment agreement supported by appropriate opinions of counsel, provided that the guarantor thereof is rated at least “AA” and “Aa” by S&P and Moody’s, respectively, and as further described in the definition of “Permitted Investments.”

Letter of Representations. The term “Letter of Representations” means the letter of the City and the Trustee delivered to and accepted by the Depository on or prior to delivery of the 2015 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the City and the Trustee delivered to and accepted by the Depository.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means the rating requirement described in the Indenture.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net Revenues. The term “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year. When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or gain derived from the investment of amounts in any of such funds or accounts.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Office. The term “Office” means with respect to the Trustee, the principal corporate trust office of the Trustee in Los Angeles, California, or such other or additional offices as may be specified in writing by the Trustee to the City, except that with respect to presentation of 2015 Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with generally accepted accounting principles applicable to governmental agencies, including, but not limited to, the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Wastewater System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges (other than debt service payments) required to be paid by it to comply with the terms of the 2012 Installment Purchase Agreement or of the Indenture or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the City) selected by the City. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements provided for in the Indenture.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2015 Bonds, means (subject to the provisions of the Indenture) all 2015 Bonds theretofore or thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2015 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2015 Bonds with respect to which all liability of the City has been discharged in accordance with the Indenture, including 2015 Bonds (or portions thereof) described therein; and (iii) 2015 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2015 Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2015 Bond Owner. The term “Owner” or “2015 Bond Owner,” whenever used in the Indenture with respect to a 2015 Bond, means the person in whose name the ownership of such 2015 Bond is registered on the Registration Books.

Paired Obligation Provider. The term “Paired Obligation Provider” means a party to a Paired Obligation other than the City.

Paired Obligations. The term “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, which are simultaneously issued or executed and delivered: (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (ii) the interest rates which, taken together, are reasonably expected to result in a fixed

interest rate obligation of the City for the term of such Bond or Contract, as certified by an Independent Financial Consultant in writing, and which comply with the provisions of the Indenture.

Parity Project. The term “Parity Project” means any additions, betterments, extensions or improvements to the City’s Wastewater System designated by the City Council as a Parity Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as securities depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to the Indenture.

Permitted Investments. The term “Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (provided that the Trustee is entitled to rely upon any Written Request from the City as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California): (A) for all purposes, including: (i) as defeasance investments in refunding escrow accounts; and (ii) for the purpose of investing (and receiving premium credit for) accrued and capitalized interest: (1) cash; or (2) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America; and (B) for all purposes other than: (i) defeasance investments in refunding escrow accounts; and (ii) investing (and receiving credit for) accrued and capitalized interest: (1) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including the Export-Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration; Government National Mortgage Association (GNMA); U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration; (2) bonds, notes or other evidences of indebtedness rated “AAA” and “Aaa” by the applicable Rating Agency issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years; (3) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker’s acceptances with domestic commercial banks, which may include the Trustee and its affiliates, which: (I) have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s; or (II) deposits insured by the Federal Deposit Insurance Corporation maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and “P-1” by Moody’s and which matures not more than 270 days after the date of purchase; (5) investments in a money market fund rated “AAAm,” “AAm,” “AAAm-G” or “AAm-G” or better by S&P, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (I) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (II) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (III) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; (6) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice and which are rated, based on the escrow, in the highest rating category of S&P and Moody’s, or any successor thereto; (7) any Investment Agreement; (8) the Local Agency Investment Fund of the State of California; and (9) any other investment permitted by law.

Principal Account. The term “Principal Account” means the account by that name in the Payment Fund established pursuant to the Indenture.

Rating. The term “Rating” means any currently effective rating on the 2015 Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means S&P and Moody’s.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to the Indenture.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the 15th day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term “Redemption Date” means the date fixed for an optional redemption prior to maturity of the 2015 Bonds.

Redemption Fund. The term “Redemption Fund” means the fund by that name established pursuant to the Indenture.

Redemption Price. The term “Redemption Price” means, with respect to any 2015 Bond (or portion thereof), the principal amount of such 2015 Bond (or portion) plus the interest accrued to the applicable Redemption Date and the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such 2015 Bond and the Indenture.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2015 Bonds pursuant to the Indenture.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, with responsibility for the administration of the Indenture.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership of or operation of the Wastewater System, including, without limiting the generality of the foregoing: (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the City from the collection, treatment and disposal of wastewater or other services or facilities provided in the conduct or operation of the business of the Wastewater System; and (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, proceeds or other moneys, including City reserves, but excluding in all cases: (x) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; (y) any proceeds of taxes or benefit assessments restricted by law to be used by the City to pay amounts due on bonds or other obligations previously or later incurred; and (z) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities.

Separate Facilities. The term “Separate Facilities” means any capital items acquired on or after the date hereof and which were not financed from the proceeds of Bonds or Contracts of the City having a parity claim on the Wastewater Revenue Fund or Revenues.

S&P. The term “S&P” means Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Written Request of the City deliver to the Trustee.

State. The term “State” means the State of California.

State Loans. The term “State Loans” means, collectively, those certain loans from the State Water Resources Control Board to the City dated as of September 16, 1998 (Contract No. 8-815-550-0), April 28, 1999 (Contract No. 8-829-550-0), October 15, 1999 (Contract No. 99-803-550-1), and March 8, 2005 (Agreement No. 03-801-550-0).

Supplemental Indenture. The term “Supplemental Indenture” means any indenture later duly authorized and entered into between the City and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the 2015A Bonds issued by the City on the date of issuance of the 2015A Bonds, including any and all exhibits attached thereto.

Trustee. The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor as Trustee under the Indenture as provided therein.

2012 Installment Purchase Agreement. The term “2012 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of February 1, 2012, by and between the City and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

2015 Bonds. The term “2015 Bonds” means, collectively, the 2015A Bonds and the 2015B Bonds issued by the City and at any time Outstanding pursuant to the Indenture.

2015A Bonds. The term “2015A Bonds” means the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A.

2015B Bonds. The term “2015B Bonds” means the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015B (Taxable).

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

Value. The term “Value,” which will be determined as of the end of each month, means that the value of any investments will be calculated as follows: (a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund will be valued at fair market value. The Trustee will determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Bank of America Merrill Lynch and Morgan Stanley Smith Barney. (b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest. (c) As to any investment not specified above: market value, or, if the market value is not ascertainable by the City or the Trustee, at cost.

Wastewater Service. The term “Wastewater Service” means the wastewater collection, treatment and disposal service made available or provided by the Wastewater System (including recycled water storage and distribution facilities).

Wastewater Revenue Fund. The term “Wastewater Revenue Fund” means the fund by that name continued pursuant to the Indenture.

Wastewater System. The term “Wastewater System” means the whole and each and every part of the wastewater system (including the recycled water storage and distribution system) of the City, including all real property and buildings whether owned or operated by the City or another party, including the portion thereof existing on the date of the Indenture, and including all additions, betterments, extensions and improvements to such Wastewater System or any part thereof later acquired or constructed, but not including any Separate Facilities.

Written Consent of the City; Written Order of the City; Written Request of the City; Written Requisition of City. The terms “Written Consent of the City,” “Written Order of the City,” “Written Request of the City” and “Written Requisition of the City” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the City by an Authorized Representative or by any two persons (whether or not members of the City Council) who are specifically authorized by resolution of the City to sign or execute such a document on its behalf.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for therein, with respect to compliance with any provision thereof will include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions therein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant or Independent Financial Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant or Independent Financial Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer of the City, unless such counsel or Independent Certified Public Accountant or Independent Financial Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel or Independent Certified Public Accountant or Independent Financial Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants or Independent Financial Consultants may certify to different matters, respectively.

THE 2015 BONDS

Terms of the 2015 Bonds. Each 2015 Bond will be dated the date of initial delivery, and will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before August 15, 2015, in which event it will bear interest from the date of initial delivery; provided, however, that if, as of the date of authentication of any 2015 Bond, interest thereon is in default, such 2015 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest on the 2015 Bonds will be calculated on the basis of a 360 day year composed of twelve 30 day months.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2015 Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the City and the Owners; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2015 Bonds as provided in the Indenture. The person in whose name any 2015 Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2015 Bonds will be made only to or upon the order in writing of such registered Owner, which payments will be valid and effectual to satisfy and discharge liability upon such 2015 Bond to the extent of the sum or sums so paid.

2015 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2015 Bond becomes mutilated, the City, at the expense of the Owner of said 2015 Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2015 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2015 Bonds so mutilated, but only upon surrender to the Trustee of the 2015 Bond so mutilated. Every mutilated 2015 Bond so surrendered to the Trustee will be canceled by it and upon the Written Request of the City delivered to, or upon the order of, the City. If any 2015 Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the City, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver,

a new 2015 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2015 Bond so lost, destroyed or stolen (or if any such 2015 Bond has matured or is about to mature, instead of issuing a substitute 2015 Bond, the Trustee may pay the same without surrender thereof). The City may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2015 Bond issued under the Indenture and of the expenses which may be incurred by the City and the Trustee in the premises. Any 2015 Bond issued under the provisions of the Indenture in lieu of any 2015 Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the City whether or not the 2015 Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and will be entitled to the benefits of the Indenture with all other 2015 Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2015 Bond for a 2015 Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for redemption, the Trustee may make payment of such 2015 Bond upon receipt of indemnity satisfactory to the Trustee.

Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2015 Bonds, the City may provide that such 2015 Bonds will be initially issued as book entry 2015 Bonds. If the City elects to deliver any 2015 Bonds in book entry form, then the City will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2015 Bonds in an authorized denomination corresponding to that total principal amount of the 2015 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2015 Bond will be registered in the 2015 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2015 Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book entry 2015 Bonds, the City and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2015 Bonds. Without limiting the immediately preceding sentence, the City and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2015 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2015 Bond Registration Books, of any notice with respect to book entry 2015 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2015 Bonds to be redeemed in the event that the City redeems the 2015 Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest on book entry 2015 Bonds. The City and the Trustee may treat and consider the person in whose name each book entry 2015 Bond is registered in the 2015 Bond Registration Books as the absolute Owner of such book entry 2015 Bond for the purpose of payment of principal of, premium and interest on such 2015 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2015 Bond, for the purpose of registering transfers with respect to such 2015 Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2015 Bonds only to or upon the order of the respective Owner, as shown in the 2015 Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the 2015 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2015 Bond Registration Books, will receive a 2015 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2015 Bonds. Upon delivery by the Depository to the City and the Trustee of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2015 Bonds for the Depository's book entry system, the City and the Trustee (if required by the Depository) will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations does not in any way impose upon the City or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2015 Bonds other than the Owners, as shown on the 2015 Bond Registration Books. By executing a Letter of Representations, the Trustee agrees to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the City and the Trustee will take such other actions, not inconsistent

with the Indenture, as are reasonably necessary to qualify book entry 2015 Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book entry 2015 Bonds; or (ii) the City determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2015 Bonds or the City, then the City will discontinue the book entry system with the Depository. If the City determines to replace the Depository with another qualified securities depository, the City will prepare or direct the preparation of a new single, separate, fully registered 2015 Bond for each of the maturity dates of such book entry 2015 Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Indenture. If the City fails to identify another qualified securities depository to replace the Depository, then the 2015 Bonds will no longer be restricted to being registered in such 2015 Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2015 Bonds designate, in accordance with the provisions of the Indenture.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2015 Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such 2015 Bond and all notices with respect to such 2015 Bond will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2015 Bonds to Substitute Depository.

(i) The 2015 Bonds will be initially issued as provided in the Indenture. Registered ownership of such 2015 Bonds, or any portions thereof, may not thereafter be transferred except: (A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) below ("Substitute Depository"); provided that any successor of DTC or Substitute Depository is qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository is qualified under any applicable laws to provide the services proposed to be provided by it; or (C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clauses (A) or (B) above, upon receipt of all Outstanding 2015 Bonds by the Trustee, together with a Written Request of the City to the Trustee designating the Substitute Depository, a single new 2015 Bond, which the City will prepare or cause to be prepared, will be issued for each maturity of 2015 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of the City. In the case of any transfer pursuant to clause (C) above, upon receipt of all Outstanding 2015 Bonds by the Trustee, together with a Written Request of the City to the Trustee, new 2015 Bonds, which the City will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the City, subject to the limitations of the Indenture, provided that the Trustee is not required to deliver such new 2015 Bonds within a period of less than 60 days from the date of receipt of such Written Request from the City.

(iii) In the case of a partial redemption or an advance refunding of any 2015 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such 2015 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee is not liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2015 Bonds will be controlling.

(iv) The City and the Trustee are entitled to treat the person in whose name any 2015 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2015 Bonds. Neither the City nor the Trustee have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2015 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2015 Bonds.

ISSUANCE OF 2015 BONDS; APPLICATION OF PROCEEDS

Validity of 2015 Bonds. The validity of the authorization and issuance of the 2015 Bonds is not dependent on and will not be affected in any way by any proceedings taken by the City or the Trustee with respect to any other agreement. The recital contained in the 2015 Bonds that the same are issued pursuant to the Constitution and laws of the State will be conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

REDEMPTION OF 2015 BONDS

Selection of 2015 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2015 Bonds, the Trustee will select the 2015 Bonds for redemption as a whole or in part on any date as directed by the City and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture. The Trustee will promptly notify the City in writing of the numbers of the 2015 Bonds or portions thereof so selected for redemption.

Partial Redemption of 2015 Bonds. Upon surrender of any 2015 Bond redeemed in part only, the City will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the City, a new 2015 Bond or 2015 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2015 Bonds surrendered and of the same series, interest rate and maturity.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2015 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2015 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2015 Bonds so called for redemption will cease to accrue, said 2015 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2015 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price thereof. The Trustee will, upon surrender for payment of any of the 2015 Bonds to be redeemed on their Redemption Dates, pay such 2015 Bonds at the Redemption Price. All 2015 Bonds redeemed pursuant to the provisions of the Indenture be canceled upon surrender thereof.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Wastewater Revenue Fund.

(a) All of the Revenues, all amounts held in the Wastewater Revenue Fund described in the Indenture and any other amounts (including proceeds of the sale of the 2015 Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2015 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues may not be used for any other purpose while the 2015 Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. Such pledge, together with the pledge created by all other Contracts and Bonds, constitutes a first lien on and security interest on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted in the Indenture, the Wastewater Revenue Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the

2015 Bonds and all Contracts and Debt Service on Bonds in accordance with the terms of the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice of the Indenture.

(b) In order to carry out and effectuate the pledge and lien contained in the Indenture, the City has agreed and covenanted that all Revenues will be received by the City in trust under the Indenture and deposited when and as received in a special fund designated as the "Wastewater Revenue Fund," which fund has been continued and which fund the City has agreed and covenanted to maintain and to hold separate and apart from other funds so long as the 2015 Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Wastewater Revenue Fund will be used and applied by the City as provided in the Indenture. All moneys in the Wastewater Revenue Fund will be held in trust and will be applied, used and withdrawn for the purposes set forth in the Indenture.

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

(i) Interest and Principal Payments. Not later than the Business Day prior to each Interest Payment Date, the City will, from the moneys in the Wastewater Revenue Fund, transfer to the Trustee for deposit in the Payment Fund an amount equal to the interest on the 2015 Bonds coming due on the next succeeding Interest Payment Date and 1/2 of the portion of the principal of the 2015 Bonds coming due on the next applicable Interest Payment Date. The City will also, from the moneys in the Wastewater Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(ii) Reserve Funds. On or before each Interest Payment Date the City will, from the remaining moneys in the Wastewater Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement with respect thereto.

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

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

Allocation of Revenues. There has been established with the Trustee the Payment Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2015 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2015 Bonds received by the Trustee pursuant to the Indenture will be promptly deposited by the Trustee upon receipt thereof into the Payment Fund; except that all moneys received by the Trustee and required by the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All payments of interest and principal on the 2015 Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also establish and hold an Interest Account and a Principal Account within the Payment Fund.

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

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2015 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there is in such fund moneys sufficient to pay the interest becoming due and payable on such date on all 2015 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal of the 2015 Bonds becomes due and payable under the Indenture, the Trustee will deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2015 Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date. No deposit need be made into the Principal Account so long as there is in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2015 Bonds then Outstanding.

Application of Interest Account. All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2015 Bonds as it becomes due and payable (including accrued interest on any 2015 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Application of Principal Account. All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2015 Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2015 Bonds, upon written direction of the City, the Trustee will apply such amounts to the purchase of 2015 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2015 Bonds.

Application of Redemption Fund. There has been established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2015 Bonds to be redeemed on any Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2015 Bonds, upon written direction of the City, the Trustee will apply such amounts to the purchase of 2015 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2015 Bonds.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the City pursuant to a Written Request of the City filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the City, the Trustee will invest any such moneys in Permitted Investments described in clause (B)(5) of the definition thereof; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the City specifying a specific money market fund and, if no such written direction from the City is so received, the Trustee will hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund) held by it thereunder upon the Written Request of the City. The Trustee may act as principal or agent in the

acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will incur no liability for losses arising from any investments made pursuant to the Indenture.

The City has acknowledged that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City has specifically waived receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture. The City will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but will account for each separately. In making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee accounting system.

Rebate Fund.

(a) Establishment. The Trustee will establish a fund for the 2015A Bonds designated the “Rebate Fund.” Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2015A Bonds will not be adversely affected, the City will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2015A Bonds will be governed by the Indenture and the Tax Certificate, unless and to the extent that the City delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2015A Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained in the Indenture or in the Tax Certificate, the Trustee: (i) will be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the City; and (ii) has no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate; and (iii) may rely conclusively on the City’s calculations and determinations and certifications relating to rebate matters; and (iv) has no responsibility to independently make any calculations or determinations or to review the City’s calculations or determinations thereunder.

(i) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the City will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The City will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the foregoing provisions.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Request of the City, an amount will be deposited to the Rebate Fund by the Trustee from any Net Revenues legally available for such purpose (as specified by the City in the aforesaid Written Request), if and to the extent required so that the balance in the Rebate Fund equals the amount of Rebatable Arbitrage so calculated in accordance with clause (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the City, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Written Request of the City, to the United States Treasury, out of amounts in the Rebate Fund: (A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90%

of the Rebateable Arbitrage calculated as of the end of such Bond Year; and (B) Not later than 60 days after the payment of all the 2015A Bonds, an amount equal to 100% of the Rebateable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebateable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the foregoing provisions will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the City), or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2015A Bonds and the payments described in clause (a) above being made may be withdrawn by the City and utilized in any manner by the City.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the Rebate Fund requirements of the Indenture will survive the defeasance or payment in full of the 2015A Bonds.

Application of Funds and Accounts When No 2015A Bonds are Outstanding. On the date on which all 2015A Bonds are retired under the Indenture or provision made therefor pursuant to the Indenture and after payment of all amounts due the Trustee thereunder, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the City for use by the City at any time for any purpose permitted by law.

PARTICULAR COVENANTS

Punctual Payment. The City will punctually pay or cause to be paid the principal and interest to become due in respect of all of the 2015 Bonds, in strict conformity with the terms of the 2015 Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of 2015 Bonds. The City will not directly or indirectly extend or assent to the extension of the maturity of any of the 2015 Bonds or the time of payment of any claims for interest by the purchase of such 2015 Bonds or by any other arrangement, and in case the maturity of any of the 2015 Bonds or the time of payment of any such claims for interest will be extended, such 2015 Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the 2015 Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture will be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding 2015 Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2015 Bonds.

Against Encumbrances. The City will not make any pledge of or place any lien on Revenues or the moneys in the Wastewater Revenue Fund except as provided in the Indenture. The City may at any time, or from time to time, execute Contracts or issue Bonds as permitted in the Indenture. The City may also at any time, or from time to time, incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of lien on Revenues on any moneys in the Wastewater Revenue Fund as may from time to time be deposited therein, provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided in the Indenture.

Power to Issue 2015 Bonds and Make Pledge and Assignment. The City is duly authorized pursuant to law to issue the 2015 Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture.

The 2015 Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the City in accordance with their terms, and the City and the Trustee will at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the 2015 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries are made of all transactions made by it relating to the proceeds of 2015 Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the City upon reasonable prior notice during business hours and under reasonable circumstances. The City will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the Wastewater System, which records are available for inspection by the Trustee (which has no duty to inspect such records) at reasonable hours and under reasonable conditions. The City will prepare and file with the Trustee annually within 270 days of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2015) financial statements of the City for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon. The Trustee has no duty to review such financial statements.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of the portion of interest on the 2015A Bonds will not be adversely affected for federal income tax purposes, the City has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income with respect to the 2015A Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City will take no action or refrain from taking any action or make any use of the proceeds of the 2015A Bonds or of any other moneys or property which would cause the 2015A Bonds to be "private activity bonds" within the meaning of Section 141 of the Code;

(b) Arbitrage. The City will make no use of the proceeds of the 2015A Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2015A Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The City will make no use of the proceeds of the 2015A Bonds or take or omit to take any action that would cause the 2015A Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2015A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The City will make no use of the proceeds of the 2015 Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2015A Bonds to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2015 Bonds for federal income tax purposes; and

(f) Miscellaneous. The City will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by the City in connection with the issuance of the 2015A Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

The foregoing tax covenants are not applicable to, and nothing contained in the Indenture be deemed to prevent the City from causing the Trustee to issue revenue bonds or to execute and deliver contracts payable on a

parity with the 2015A Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Waiver of Laws. The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the covenants and agreements contained in the Indenture or in the 2015 Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the City to the extent permitted by law.

Further Assurances. The City will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2015 Bonds of the rights and benefits provided in the Indenture.

Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or later imposed on the City by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or later acquired by the City, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Compliance with Contracts. The City will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the City to pay principal of or interest on the 2015 Bonds; and the City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Wastewater System, to the extent that the City is a party thereto.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee or any 2015 Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Wastewater System or any part thereof, whether now existing or later developing, will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee (including all of its employees, officers and directors), the Trustee and every 2015 Bond Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The City will defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2015 Bond Owner upon any claim arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2015 Bonds or involving the rights of the Trustee or any 2015 Bond Owner under the Indenture; provided that the Trustee or any 2015 Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. The City will indemnify and hold harmless the Trustee and the 2015 Bond Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and will indemnify and hold harmless the 2015 Bond Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation (including pre-litigation activities) to which any of them may become a party by reason of ownership of 2015 Bonds. The City will promptly reimburse any 2015 Bond Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under the Indenture or the 2015 Bonds, provided that such litigation is concluded favorably to such party's contentions therein.

Continuing Disclosure. The City has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the City in connection with the issuance of the 2015 Bonds. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate is not considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with the foregoing obligations. For purposes of the Indenture, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make

investment decisions concerning ownership of any 2015 Bonds (including persons holding 2015 Bonds through nominees, depositories or other intermediaries).

Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the 2015 Bonds, or which would otherwise impair the operation of the Wastewater System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the City to pay the principal of and interest on the 2015 Bonds and if the proceeds of such sale are deposited in the Wastewater Revenue Fund.

Nothing in the Indenture restricts the ability of the City to sell any portion of the Wastewater System if such portion is immediately repurchased by the City and if such arrangement cannot by its terms result in the purchaser of such portion of the Wastewater System exercising any remedy which would deprive the City of or otherwise interfere with its right to own and operate such portion of the Wastewater System.

Against Competitive Facilities. To the extent that it can so legally obligate itself, the City has covenanted that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any wastewater system competitive with the Wastewater System.

Maintenance and Operation of the Wastewater System. The City will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created under the Indenture or on any funds in the hands of the City pledged to pay the principal of or interest on the 2015 Bonds or to the Owners prior or superior to the lien under the Indenture.

Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Wastewater System) as are usually covered in connection with facilities similar to the Wastewater System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City will begin such reconstruction, repair or replacement promptly after receipt of such Net Proceeds, and will continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and will pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same are completed and the Wastewater System is free and clear of all claims and liens. The City has covenanted to reconstruct, repair or replace the damaged or destroyed portions of the Wastewater System promptly if a failure to reconstruct, repair or replace such portions would impair or adversely affect the ability of the City to pay the 2015 Bonds.

(b) The City will procure and maintain such other insurance as it deems advisable or necessary to protect its interests and the interests of the 2015 Bond Owners, which insurance affords protection in such amounts and against such risks as are usually covered in connection with municipal wastewater systems similar to the Wastewater System.

(c) Any insurance required to be maintained by clause (a) above and, if the City determines to procure and maintain insurance pursuant to clause (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with wastewater systems similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Wastewater System, or any part thereof or upon the Revenues when the same become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System, or any part thereof, but the City is not required to comply with any regulations or requirements so long as the validity or application thereof is contested in good faith.

Collection of Rates and Charges. The City will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Wastewater Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

Eminent Domain Proceeds. If all or any part of the Wastewater System is taken by eminent domain proceedings, the Net Proceeds thereof will be applied either to additions, betterments, extensions or improvements to the Wastewater System or, if the City elects not to apply such Net Proceeds to such capital items or if such Net Proceeds are not fully expended for such purposes, such Net Proceeds not required by the City for such purposes will be deposited in the Wastewater Revenue Fund.

Enforcement of Contracts. The City will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or later entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the City to pay principal of and interest on the 2015 Bonds.

EVENTS OF DEFAULT AND REMEDIES OF 2015 BOND OWNERS

Events of Default. The following events will be Events of Default under the Indenture:

(a) Default by the City in the due and punctual payment of the principal of any 2015 Bonds, the principal of any Bonds or the principal with respect to any Contract, when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default by the City in the due and punctual payment of any installment of interest on any 2015 Bonds, any installment of interest on any Bond or any installment of interest with respect to any Contract, when and as the same become due and payable.

(c) Default by the City in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2015 Bonds, or required by any Bond or indenture relating thereto or by any Contract, if such default continues for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the City by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2015 Bonds Outstanding, a majority in principal amount of such Bond outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that if in the reasonable opinion of the City the default stated in the notice can be corrected, but not within such 60 day period and corrective action is instituted by the City within such 60 day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default under the Indenture.

(d) The City files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction approves a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any

state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the City or of the whole or any substantial part of its property.

(e) Payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms.

Remedies Upon Event of Default. If any Event of Default specified in clauses (d) or (e) above occurs and is continuing, the Trustee will, and for any other Event of Default, the Trustee may, and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2015 Bonds at the time Outstanding, will, in each case, upon notice in writing to the City, declare the principal of all of the 2015 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and be immediately due and payable, anything in the Indenture or in the 2015 Bonds contained to the contrary notwithstanding.

Nothing contained in the Indenture permits or require the Trustee to accelerate payments due under the Indenture if the City is not in default of its obligation thereunder.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City deposits with the Trustee a sum sufficient to pay all the principal of and installments of interest on the 2015 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective 2015 Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, or deposits with the applicable trustee with respect to any Contract a sum sufficient to pay all the principal and installments of interest with respect to such Contract payment of which is overdue, with interest on such overdue principal at the rate borne by such Contract to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Contract, or deposits with the applicable trustee with respect to any Bond a sum sufficient to pay all the principal of and installment of interest on such Bond payment of which is overdue, with interest on such overdue principal at the rate borne by such Bonds to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Bonds, and any and all other Events of Default known to the Trustee or the applicable trustee with respect to such Contract or Bonds (other than in the payment of principal of and interest on the 2015 Bonds, payment of principal and interest with respect to such Contract or payment of principal and interest on such Bond, as applicable, due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case the Trustee will on behalf of the Owners of all of the 2015 Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment will extend to or affect any subsequent Event of Default, or impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Revenues held or thereafter received by the Trustee and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund) will be applied in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2015 Bonds, Contract or Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of Operation and Maintenance Costs; and

(c) To the payment of the principal of and interest then due on the 2015 Bonds (upon presentation of the 2015 Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid), in accordance with the provisions of the Indenture, the payment of the principal and interest then due with respect to such Contract in accordance with the provisions thereof and the payment of the principal of and interest then due on such Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due on the 2015 Bonds, with respect to such Contract or on such Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any 2015 Bonds, principal with respect to such Contract or principal of any Bonds, as applicable, which have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of 8% per annum, and, if the amount available is not sufficient to pay in full all the 2015 Bonds, all amounts due under such Contract or all the Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: If there exists any remainder after the foregoing payments, such remainder will be paid to the City.

Trustee to Represent 2015 Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the 2015 Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2015 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2015 Bonds or the Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2015 Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2015 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it deems most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2015 Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee is entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2015 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2015 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Owners of such 2015 Bonds, subject to the provisions of the Indenture.

2015 Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2015 Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction is not otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee has the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to 2015 Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2015 Bonds has the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture with respect to such 2015 Bonds, unless: (a) such Owners have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 50% in aggregate principal amount of the 2015 Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the 2015 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission have been declared, in every case, to be conditions precedent to the exercise by any Owner of 2015 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2015 Bonds have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2015 Bonds, or to enforce any right under the 2015 Bonds, the Indenture, or applicable law with respect to the 2015 Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding 2015 Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the City. Nothing in the Indenture or in the 2015 Bonds affects or impairs the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the 2015 Bonds to the respective Owners of the 2015 Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets therein pledged therefor, or affects or impairs the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2015 Bonds.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the 2015 Bonds in the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given thereunder or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2015 Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or be construed to be a waiver of any such Event of Default or an acquiescence therein.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee will, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture and no implied covenants or duties may be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The City may remove the Trustee at any time, unless an Event of Default has occurred and is then continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2015 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with the Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon will promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the 2015 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as

aforesaid, the resigning Trustee or any 2015 Bond Owner (on behalf of himself and all other 2015 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the City or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and will pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions therein set forth. Upon request of the successor Trustee, the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the City will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which is then rating the 2015 Bonds and to the 2015 Bond Owners at the addresses shown on the Registration Books. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the City.

(e) Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified therein.

Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it is a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank is eligible under the Indenture, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee.

(a) The recitals of facts in the Indenture and in the 2015 Bonds will be taken as statements of the City, and the Trustee does not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or the 2015 Bonds, nor does the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations therein or in the 2015 Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the 2015 Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2015 Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2015 Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2015 Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for in the Indenture) in aggregate principal amount of the 2015 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any Default or Event of Default under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default thereunder unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with the Indenture, of such event by the City or the Owners of not less than 50% of the 2015 Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the City of any of the terms, conditions, covenants or agreements in the Indenture of any of the documents executed in connection with the 2015 Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of any of its rights or powers.

(g) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the Indenture, unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions under the caption "THE TRUSTEE."

(i) The Trustee has no responsibility or liability with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2015 Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and will not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Wastewater System, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee has the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to the Indenture and delivered using Electronic Means (“Electronic Means”), which means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services under the Indenture); provided, however, that the City will provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by the City whenever a person is to be added or deleted from the listing. If the City elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee’s understanding of such Instructions will be deemed controlling. The City has understood and agreed that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The City is responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the City and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. The City has agreed: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedure.

(n) The Trustee is not concerned with or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

(o) The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the provisions thereof unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(p) The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty and it will not be answerable for other than its negligence or willful misconduct.

Right to Rely on Documents. The Trustee will be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the City, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2015 Bonds appearing in the Trustee’s Registration Books as the absolute owners of the 2015 Bonds for all purposes and the Trustee will not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the City, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture will be retained in its possession and will be subject at all reasonable times to the inspection of the City and any 2015 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The City will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The City will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or bad faith on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust of the Indenture, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers thereunder. The rights of the Trustee and the obligations of the City under the foregoing provisions will survive removal or resignation of the Trustee under the Indenture or the discharge of the 2015 Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted.

(a) The Indenture and the rights and obligations of the City and of the Owners of the 2015 Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the City and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all 2015 Bonds then Outstanding, exclusive of 2015 Bonds disqualified as provided in the Indenture, has been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2015 Bonds, or reduce the amount of principal thereof or premium (if any) thereon, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each 2015 Bond so affected; or (2) reduce the aforesaid percentage of 2015 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2015 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted in the Indenture, without the consent of the Owners of all of the 2015 Bonds then Outstanding. It is not necessary for the consent of the 2015 Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent approves the substance thereof. Promptly after the execution by the City and the Trustee of any Supplemental Indenture pursuant to the foregoing provisions, the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2015 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the City, the Trustee and the Owners of the 2015 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into without the consent of any 2015 Bond Owners, if the Trustee receives an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture will not materially adversely affect the interests of the Owners of the Outstanding 2015 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2015 Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the City in the Indenture;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute under the Indenture in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute; and

(4) to modify, amend or supplement the Indenture in such manner as to cause interest on the 2015A Bonds to remain excludable from gross income under the Code.

(c) The Trustee may in its discretion, but is not obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2015A Bonds from federal income taxation and interest on the 2015 Bonds from state income taxation.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the City, the Trustee and all Owners of 2015 Bonds Outstanding will thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of 2015 Bonds; Preparation of New 2015 Bonds. 2015 Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines will, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2015 Bonds Outstanding at the time of such execution and presentation of his or her 2015 Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation will be made on such 2015 Bonds. If the Supplemental Indenture so provides, new 2015 Bonds so modified as to conform, in the opinion of the City and the Trustee, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the City and authenticated by the Trustee, and upon demand on the Owners of any 2015 Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2015 Bond Owner, for 2015 Bonds then Outstanding, upon surrender for cancellation of such 2015 Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2015 Bonds. The provisions of the Indenture do not prevent any 2015 Bond Owner from accepting any amendment as to the particular 2015 Bonds held by him.

DEFEASANCE

Discharge of Indenture. The 2015 Bonds may be paid by the City in any of the following ways, provided that the City also pays or causes to be paid any other sums payable under the Indenture by the City:

(a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2015 Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem all 2015 Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the 2015 Bonds then Outstanding.

If the City also pays or causes to be paid all other sums payable under the Indenture by the City, then and in that case, at the election of the City (as evidenced by a Certificate of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any 2015 Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the City, the Trustee will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of 2015 Bonds not theretofore surrendered for such payment or redemption to the City.

Discharge of Liability on 2015 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding 2015 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2015 Bonds), provided that, if such Outstanding 2015 Bonds are to be redeemed prior to maturity, notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee has been made for the giving of such notice, then all liability of the City in respect of such 2015 Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any 2015 Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such 2015 Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any 2015 Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2015 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2015 Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as provided in the Indenture or provisions satisfactory to the Trustee have been made for the giving of such notice, the amount to be deposited or held will be the principal amount of such 2015 Bonds and all unpaid interest and premium, if any, thereon to the Redemption Date; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with the City and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the Redemption Date (with premium, if any), as the case may be, on the 2015 Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2015 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that: (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Written Request of the City) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2015 Bonds; and (ii) the City has delivered to the Trustee an opinion of Bond Counsel addressed to the City and the Trustee to the effect that such 2015 Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above).

Payment of 2015 Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2015 Bonds and

remaining unclaimed for two years after the principal of all of the 2015 Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two years after the date of deposit of such moneys if deposited after said date when all of the 2015 Bonds became due and payable, will be repaid to the City free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the City and the Trustee indemnifying the Trustee with respect to claims of Owners of 2015 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee will at the written direction of the City (at the cost of the City) first mail to the Owners of 2015 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2015 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

MISCELLANEOUS

Liability of City Limited to Revenues. Notwithstanding anything in the Indenture or the 2015 Bonds, but subject to the priority of payment with respect to Operation and Maintenance Costs, the City is not required to advance any moneys derived from any source other than the Revenues, the Wastewater Revenue Fund and other moneys pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the 2015 Bonds or for any other purpose of the Indenture. Nevertheless, the City may, but is not required to, advance for any of the purposes of the Indenture any funds of the City which may be made available to it for such purposes.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the City or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the City or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and 2015 Bond Owners. Nothing in the Indenture or in the 2015 Bonds expressed or implied is intended or will be construed to give to any person other than the City, the Trustee and the Owners of the 2015 Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the City, the Trustee and the Owners of the 2015 Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of 2015 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any 2015 Bonds, the Trustee will destroy such 2015 Bonds as may be allowed by law, and deliver a certificate of such destruction to the City.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2015 Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The City has declared that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2015 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of 2015 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2015 Bond Owners may be in any number of concurrent instruments

of substantially similar tenor and will be signed or executed by such 2015 Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2015 Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the City if made in the manner provided in the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The Ownership of 2015 Bonds will be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any 2015 Bond will bind every future Owner of the same 2015 Bond and the Owner of every 2015 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Disqualified 2015 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2015 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2015 Bonds which are known by the Trustee to be owned or held by or for the account of the City, or by any other obligor on the 2015 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2015 Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2015 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee establishes to the satisfaction of the Trustee the pledgee's right to vote such 2015 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2015 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the City will certify to the Trustee those 2015 Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular 2015 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2015 Bonds (or portions of 2015 Bonds in the case of registered 2015 Bonds redeemed in part only) will, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2015 Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the 2015 Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the City will be individually or personally liable for the payment of the principal of or premium or interest on the 2015 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture will relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

CUSIP Numbers. Neither the Trustee nor the City are liable for any defect or inaccuracy in the CUSIP number that appears on any 2015 Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the 2015 Bonds have been assigned by

an independent service and are included in such notice solely for the convenience of the 2015 Bondholders and that neither the City nor the Trustee will be liable for any inaccuracies in such numbers.

Choice of Law. THE INDENTURE WILL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Paired Obligation Provider Guidelines. For purposes of the Indenture, Paired Obligations will comply with the following conditions: (a) A Paired Obligation Provider will initially have a long-term rating of A- or better by S&P and A3 or better by Moody's. (b) So long as the long-term rating of the Paired Obligation Provider is not reduced below Baa2 by S&P or BBB by Moody's, the interest rate of such Paired Obligation will be deemed to be equal to the irrevocable fixed interest rate attributable thereto for purposes of the Indenture.

In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the City does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within ten Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations will be computed for purposes of the Indenture without regard to payments to be received from the Paired Obligation Provider.

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the 2015 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

May 14, 2015

City of Escondido
201 North Broadway
Escondido, California 92025

Re: City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A and City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015B (Taxable)

Members of the City Council:

We have examined a certified copy of the record of the proceedings of the City of Escondido (the "City") relative to the issuance of the \$14,645,000 City of Escondido Refunding Revenue Bonds, Series 2015A (the "2015A Bonds") and the \$5,060,000 City of Escondido Refunding Revenue Bonds, Series 2015B (Taxable) (the "2015B Bonds," and together with the 2015A Bonds, the "2015 Bonds"), dated the date hereof, and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the initial purchaser of the 2015 Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The 2015 Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2015 (the "Indenture"), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The 2015 Bonds mature on the dates and in the amounts referenced in the Indenture. The 2015 Bonds are dated their date of delivery and bear interest at the rates per annum referenced in the Indenture. The 2015 Bonds are registered in the form set forth in the Indenture.

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

1. The proceedings of the City show lawful authority for the issuance and sale of the 2015 Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the 2015 Bonds and the Indenture are valid and binding obligations of the City enforceable against the City in accordance with their terms.

2. The obligation of the City to make the payments of principal of and interest on the 2015 Bonds from Net Revenues (as such term is defined in the Indenture) is an enforceable obligation of the City and does not constitute an indebtedness of the City in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2015A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest

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.

4. Interest (and original issue discount) on the 2015 Bonds is exempt from State of California personal income tax.

5. The amount by which a 2015A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2015A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the 2015A Bond Owner's basis in the applicable 2015A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2015A Bond premium may result in a 2015A Bond Owner realizing a taxable gain when a 2015A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2015A Bond to the Owner. Purchasers of the 2015A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

6. The difference between the issue price of a 2015A Bond (the first price at which a substantial amount of the 2015A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such 2015A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2015A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2015A Bond Owner will increase the 2015A Bond Owner's basis in the applicable 2015A Bond. The amount of original issue discount that accrues to the Owner of a 2015A Bond is excluded from the gross income of such 2015A Bond 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

7. Under existing statutes, regulations, rulings and judicial decisions, interest on the 2015B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code.

The opinions expressed herein as to the exclusion from gross income of interest on the 2015A Bonds are based upon certain representations of fact and certifications made by the City and are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2015 Bonds to assure that such interest (and original issue discount) on the 2015A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2015A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2015A Bonds. The City has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement ends as of the date of issuance of the 2015 Bonds. The Indenture and the Tax Certificate relating to the 2015A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the 2015A Bonds for federal income tax purposes with respect to any 2015A Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the 2015 Bonds.

Any federal tax advice contained herein with respect to the 2015B Bonds is not intended or written to be used, and it cannot be used, for the purpose of avoiding penalties under the Code. The federal tax advice contained herein with respect to the 2015B Bonds was written to support the promoting and marketing of the 2015B Bonds. Before purchasing any of the 2015B Bonds, all potential purchasers should consult their independent tax advisors with respect to the tax consequences relating to the 2015B Bonds and the taxpayer's particular circumstances.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the 2015 Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

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

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the 2015 Bonds or other offering material relating to the 2015 Bonds and expressly disclaim any duty to advise the owners of the 2015 Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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APPENDIX D

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2015 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2015 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2015 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2015 Bonds. The 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2015 Bond will be issued for each annual maturity of the 2015 Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

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

Purchases of 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2015 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2015 Bonds, except in the event that use of the book entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2015 Bonds documents. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2015 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2015 Bond Owner shall give notice to elect to have its 2015 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2015 Bond by causing the Direct Participant to transfer the Participant's interest in the 2015 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2015 Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2015 Bond are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered 2015 Bond to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2015 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book entry only transfers through DTC (or a successor securities depository). In that event, 2015 Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK ENTRY ONLY SYSTEM IS USED FOR THE 2015 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2015 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the 2015 Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Escondido (the “City”) in connection with the issuance of the \$14,645,000 City of Escondido Refunding Revenue Bonds, Series 2015A (the “2015A Bonds”) and the \$5,060,000 City of Escondido Refunding Revenue Bonds, Series 2015B (Taxable) (the “2015B Bonds,” and together with the 2015A Bonds, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2015 (the “Indenture”), by and between The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”) and the City. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report. The term “Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term “Beneficial Owner” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Fiscal Year. The term “Fiscal Year” means the one-year period ending on the last day of June of each year.

Holder. The term “Holder” means a registered owner of the Bonds.

Listed Events. The term “Listed Events” means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term “Official Statement” means the Official Statement dated April 29, 2015 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term “Rule” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The City shall provide not later than March 1 following the end of its Fiscal Year (commencing with Fiscal Year 2015) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to EMMA an Annual Report by the date required in subsection (a), the City shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available;

(b) Principal amount of the Bonds outstanding;

(c) An update of the information in Tables 1, 2, 3 and 4 under the caption "THE WASTEWATER SYSTEM" in the Official Statement;

(d) An update of the information in Table 12 under the caption "FINANCIAL INFORMATION OF THE CITY" in the Official Statement; and

(e) A description of additional Contracts or Bonds (as such terms are defined in the Indenture) executed or issued by the City during the most recently completed Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;

5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and
7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: May 14, 2015

CITY OF ESCONDIDO

By: _____
Its: City Manager

APPENDIX F

GENERAL INFORMATION REGARDING THE CITY OF ESCONDIDO

The following information is presented as general background data. The 2015 Bonds are payable solely from the Net Revenues as described in the Official Statement. The taxing power of the City, the State or any political subdivision thereof is not pledged to the payment of the 2015 Bonds.

Location

The City of Escondido (the “City”) is located in a long valley surrounded by coastal mountains about eighteen miles inland and thirty miles north of downtown San Diego.

The City has diversified from its origins as an agricultural center for the surrounding citrus and avocado farms. Today, more than 175 industrial firms are located in the City. In addition, the City serves as a focal point for north San Diego County (“North County”) recreation and entertainment. Interstate 15 and Highway 78 bisect the City, making the City easily accessible for regional commerce and recreation.

Population

The City is the largest inland city in North County with an estimated current population of 147,102. Table F-1 sets forth total population for the City, the County of San Diego (the “County”) and the State of California (the “State”).

Table F-1
City of Escondido, County of San Diego and State of California
Population

<i>January 1</i>	<i>City of Escondido</i>	<i>County of San Diego</i>	<i>State of California</i>
2010	144,008	3,091,579	37,223,900
2011	144,998	3,115,810	37,427,946
2012	145,369	3,128,749	37,668,804
2013	146,115	3,154,574	37,984,138
2014	147,102	3,194,362	38,340,074

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and State, 2001-2010, with 2000 & 2010 Census Counts and E-4 Population Estimates for Cities, Counties and State, 2011-2014 with 2010 Benchmark, Sacramento, California.*

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Employment and Industry

Table F-2 summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2010 through 2014 in the City, the County, the State and the United States.

Table F-2
City of Escondido, County of San Diego, State of California and United States
Labor Force, Employment and Unemployment Yearly Average

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment⁽¹⁾</i>	<i>Civilian Unemployment⁽²⁾</i>	<i>Civilian Unemployment Rate⁽³⁾</i>
2010				
Escondido	73,500	65,400	8,100	11.0%
San Diego County	1,574,100	1,408,200	165,900	10.6
California	18,336,300	16,068,400	2,267,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2011				
Escondido	73,800	66,100	7,700	10.4
San Diego County	1,582,200	1,423,500	158,700	10.0
California	18,417,900	16,249,600	2,168,300	11.8
United States	153,617,000	139,869,000	13,747,000	8.9
2012				
Escondido	74,600	67,600	6,900	9.3
San Diego County	1,599,200	1,456,300	142,800	8.9
California	18,519,000	16,589,700	1,929,300	10.4
United States	154,975,000	142,469,000	12,506,000	8.1
2013				
Escondido	74,100	68,300	5,800	7.9
San Diego County	1,590,000	1,470,000	120,000	7.5
California	18,596,800	16,933,300	1,663,500	8.9
United States	155,389,000	143,929,000	2,130,000	7.4
2014				
Escondido	69,100	64,600	4,400	6.4
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

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

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

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

Source: California Employment Development Department, March 2014 Benchmark; U.S. Department of Labor, Bureau of Labor Statistics.

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Table F-3 sets forth the industry employment and the labor force estimates for the years 2010 through 2014 for the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (“MSA”). Annual industry employment information is not compiled by sector for the City.

Table F-3
San Diego-Carlsbad-San Marcos MSA
Industry Employment and Labor Force
Annual Average

<i>Type of Employment</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Total Farm	10,500	9,800	9,800	9,800	10,000
Total Nonfarm	1,237,100	1,247,000	1,280,500	1,317,800	1,348,000
Total Private	1,006,600	1,018,000	1,052,700	1,088,300	1,116,100
Goods Producing	148,900	149,000	151,900	156,600	160,300
Natural Resources & Mining	400	400	400	400	400
Construction	55,400	55,200	57,000	60,900	63,500
Manufacturing	93,100	93,400	94,500	95,200	96,400
Durable Goods	71,200	71,100	71,400	71,100	71,400
Nondurable Goods	21,900	22,200	23,100	24,100	24,900
Service Providing	1,088,200	1,098,000	1,128,600	1,161,200	1,187,700
Private Service Producing	857,700	869,100	900,800	931,800	955,800
Trade, Transportation & Utilities	197,400	201,000	208,000	212,400	214,800
Wholesale Trade	40,200	41,500	43,500	43,900	43,900
Retail Trade	130,700	133,400	137,200	141,300	144,200
Transportation, Warehousing & Utilities	26,500	26,100	27,300	27,200	26,800
Information	25,100	24,200	24,500	24,300	24,600
Financial Activities	67,200	67,600	70,200	71,400	70,500
Professional & Business Services	207,900	210,200	216,700	224,700	230,000
Educational & Health Services	159,600	162,800	170,500	181,100	186,900
Leisure & Hospitality	154,500	155,600	161,700	168,600	176,800
Other Services	46,100	47,700	49,200	49,300	52,300
Government	<u>230,500</u>	<u>229,000</u>	<u>227,800</u>	<u>229,500</u>	<u>231,900</u>
Total All Industries	<i>1,247,600</i>	<i>1,256,800</i>	<i>1,290,300</i>	<i>1,327,600</i>	<i>1,358,000</i>

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

Source: State of California, Employment Development Department, Labor Market Information Division, San Diego-Carlsbad-San Marcos MSA *Industry Employment & Labor Force - by Annual Average, March 2014 Benchmark*.

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Major Employers

Table F-4 sets forth the principal employers in the City as of June 30, 2014.

**Table F-4
City of Escondido
Principal Employers**

<i>Employer</i>	<i>Number of Employees</i>
Palomar Medical Center	3,290
Escondido Union School District	1,804
Welk Group Inc.	1,200
San Diego Wild Animal Park	1,100
City of Escondido	1,082
Escondido Union High School District	861
Vons Grocery Stores	360
Home Depot	350
Nordstrom Inc.	290
Palomar Community College District	211

Source: City of Escondido, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2014*.

Commercial Activity

Trade outlet and retail sales activity are summarized in Tables F-5 and F-6 based on reports of the State Board of Equalization.

**Table F-5
City of Escondido
Total Taxable Transactions and Number of Sales Permits
2009 through 2013⁽¹⁾**

<i>Calendar Year</i>	<i>Retail Sales⁽²⁾</i>	<i>Retail Sales Permits</i>	<i>Total Taxable Transactions⁽²⁾</i>	<i>Issued Sales Permits</i>
2009	\$1,611,325	2,312	\$2,040,596	3,576
2010	1,728,265	2,414	2,132,167	3,706
2011	1,940,690	2,549	2,403,036	3,830
2012	2,170,967	2,621	2,649,357	3,888
2013	2,257,769	2,618	2,762,499	3,849

⁽¹⁾ Reflects latest information available.

⁽²⁾ Dollar amounts are in thousands.

Source: California State Board of Equalization.

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Table F-6
City of Escondido
Taxable Retail Sales
2009 through 2013⁽¹⁾⁽²⁾

<i>Type of Business</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Motor Vehicle & Parts Dealers	\$ 481,614	\$ 529,178	\$ 643,515	\$ 825,386	\$ 876,343
Home Furnishings & Appliance Stores	30,602	33,286	45,975	48,489	47,669
Building Materials & Garden Equipment & Supplies	157,370	167,646	168,705	178,926	191,660
Food & Beverage Stores	120,048	120,970	126,382	126,104	128,277
Gasoline Stations	218,496	254,285	306,278	318,773	300,622
Clothing & Clothing Accessories Stores	160,564	170,763	183,669	187,747	178,954
General Merchandise Stores	133,896	134,120	136,050	140,874	164,974
Food Services & Drinking Places	162,468	169,879	179,404	192,772	203,456
Other Retail Group	<u>146,267</u>	<u>148,138</u>	<u>150,710</u>	<u>151,896</u>	<u>165,812</u>
Retail Stores Totals	1,611,325	1,728,265	1,940,690	2,170,967	2,257,769
All Other Outlets	<u>429,271</u>	<u>403,902</u>	<u>462,346</u>	<u>478,390</u>	<u>504,730</u>
Total All Outlets	<u>\$ 2,040,596</u>	<u>\$ 2,132,167</u>	<u>\$ 2,403,036</u>	<u>\$ 2,649,357</u>	<u>\$ 2,762,499</u>

⁽¹⁾ Reflects latest information available.

⁽²⁾ Dollar amounts are in thousands.

Source: California State Board of Equalization.

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Building Activity

Table F-7 summarizes building activity in the City from 2009 through 2013, reflecting the latest available information.

Table F-7
City of Escondido
Building Permit Valuations
2009 through 2013

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
<u>Residential</u>					
Single Family	\$31,276,919	\$ 21,709,519	\$ 8,852,193	\$ 1,081,371	\$ 7,080,327
Multi-Family	4,625,512	5,166,958	12,919,403	2,549,914	1,296,850
Alteration/Additions	<u>3,743,437</u>	<u>3,032,618</u>	<u>3,585,270</u>	<u>4,339,290</u>	<u>2,861,611</u>
Total	\$39,645,868	\$29,909,095	\$25,356,866	\$7,970,575	\$11,238,788
<u>Non-Residential</u>					
New Commercial	\$ 1,124,405	\$ 3,480,411	\$ 2,303,428	\$ 306,208	\$6,156,693
New Industry	535,136	1,362,179	0	2,742,479	0
Other ⁽¹⁾	3,176,047	1,914,091	2,279,369	1,471,458	1,552,352
Alteration/Additions	<u>9,991,810</u>	<u>15,334,778</u>	<u>8,984,967</u>	<u>15,613,473</u>	<u>15,469,629</u>
Total	\$14,827,398	\$22,091,459	\$13,567,764	\$20,133,618	\$23,178,674
<u>Total All Industry</u>	<u>\$54,473,266</u>	<u>\$52,000,554</u>	<u>\$38,924,630</u>	<u>\$28,104,193</u>	<u>\$34,417,462</u>
<u>Total</u>					
Single Family Units	114	84	32	6	57
Multi-Family Units	<u>63</u>	<u>55</u>	<u>112</u>	<u>36</u>	<u>11</u>
Total	177	139	144	42	68

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Source: California Homebuilding Foundation/Construction Industry Research Board.

Transportation

Interstate 15 serves the City, extending from San Diego through to Riverside and Las Vegas, Nevada. State Highway 78 runs west to east from the coastline between Oceanside and Carlsbad through the City to Interstate 10 and is one of the main east/west corridors through the County.

The Santa Fe Railroad has a freight service line serving the City, and Amtrak provides passenger service from Oceanside on the San Diego/Los Angeles line. The Sprinter provides commuter rail service from the City to Oceanside.

Two airports serve North County. San Diego International Airport (Lindbergh Field), 35 minutes from the City, provides access to fourteen major national and international commercial airlines and fourteen freight forwarding companies. The smaller McClellan-Palomar Airport, 15 minutes from downtown of the City, offers commercial service to Los Angeles, Las Vegas, Nevada and Phoenix, Arizona. McClellan-Palomar also offers complete private aircraft service.

Education

The City has 16 elementary schools (plus eight private schools), five middle schools, and three public high schools (plus three private schools). In addition, the City has a charter elementary school, middle school and night school.

The largest university in the County is San Diego State University, part of the California State University system. California State University at San Marcos is the closest university to the City. The University of California, San Diego in La Jolla is one of nine campuses of the University of California system. The statewide Community College System has nine colleges in San Diego County, including a campus of Palomar Community College in the City.

Private universities in San Diego County include United States International University, the University of San Diego, Point Loma Nazarene University and National University.

Recreation and Culture

The City is a 60 minute drive from Cleveland National Forest and a 30 minute drive from the Pacific Ocean and all of the outdoor activities associated with these areas. Thousands of acres of nearby recreation areas provide opportunities for picnicking, boating, fishing, tennis, softball and swimming. Over 25 golf courses are located within a 20 minute drive of the City.

Spectator sports fans can choose among professional football and baseball at nearby Qualcomm Stadium and Petco Park and thoroughbred horse racing at Del Mar Racetrack. The City's recreation department offers amateur athletes softball, football, tennis and other organized sporting activities at 12 parks and 6 playgrounds.

Concerts, plays, and museums are popular in and around the City. The California Center for the Arts, Escondido, an \$81.0 million cultural center complex including a performing arts theater, a community theater, a museum and a conference center, opened in October 1994. The Patio Playhouse and the Lawrence Welk Theatre also offer dramatic productions. The San Diego Arts Gallery and the La Jolla Museum of Art are two of the many art galleries in the area and the Mingei International Museum offers various art exhibitions.

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