

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 on the 2019A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the 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 2019B 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 on the Bonds is exempt from State of California personal income tax. See the caption “TAX EXEMPTION.”

\$20,380,000
ESCONDIDO JOINT POWERS
FINANCING AUTHORITY
WATER SYSTEM REVENUE REFUNDING
BONDS, SERIES 2019A

\$30,000,000
ESCONDIDO JOINT POWERS
FINANCING AUTHORITY
WATER SYSTEM REVENUE REFUNDING
BONDS, SERIES 2019B (TAXABLE)

Dated: Date of Delivery

Due: September 1, as shown on inside front cover page

The 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. Individual purchases will be made in denominations of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds is payable on March 1 and September 1 of each year, commencing March 1, 2020. Payment of the principal of and interest on the Bonds is to be made to Cede & Co., which is to disburse said payments to the Beneficial Owners of the Bonds through their nominees.

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, all as more fully described herein.

The 2019A Bonds are being issued to provide funds: (i) to refund the City of Escondido Revenue Certificates of Participation, Series 2007 in full; and (ii) to pay costs incurred in connection with the issuance of the 2019A Bonds.

The 2019B Bonds are being issued to provide funds: (i) to refund the Escondido Joint Powers Financing Authority Revenue Bonds (Water System Financing), Series 2012 in full; and (ii) to pay costs incurred in connection with the issuance of the 2019B Bonds.

The Bonds are being issued pursuant to the Indenture of Trust, dated as of November 1, 2019, by and between the Escondido Joint Powers Financing Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. THE BONDS ARE A SPECIAL LIMITED OBLIGATION OF THE AUTHORITY PAYABLE SOLELY FROM AUTHORITY REVENUES, WHICH CONSIST OF SERIES 2019 INSTALLMENT PAYMENTS TO BE MADE BY THE CITY TO THE AUTHORITY PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT, DATED AS OF NOVEMBER 1, 2019, BY AND BETWEEN THE CITY AND THE AUTHORITY, AND FROM CERTAIN OTHER FUNDS AND ACCOUNTS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the City to make the Series 2019 Installment Payments is a special limited obligation of the City payable solely from Net Revenues of the City's Water System. The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay Series 2019 Installment Payments, subject to the terms and conditions of the Installment Purchase Agreement, as more fully described herein.

THE OBLIGATION OF THE CITY TO MAKE SERIES 2019 INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT 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 MAKE THE SERIES 2019 INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES OF THE CITY'S WATER SYSTEM 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 MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

MATURITY SCHEDULE
(See inside front cover page)

The 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 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain matters will be passed upon for the City and the Authority by the City Attorney, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California, and for the Trustee by its counsel. It is anticipated that the Bonds will be available for delivery through the facilities of The Depository Trust Company on or about November 26, 2019.

STIFEL

MATURITY SCHEDULE

BASE CUSIP[†] 29634E

\$20,380,000

**ESCONDIDO JOINT POWERS FINANCING AUTHORITY
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2019A**

<i>Maturity (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
2020	\$ 580,000	3.000%	1.040%	101.486	DH2
2021	605,000	4.000	1.050	105.140	DJ8
2022	630,000	5.000	1.060	110.702	DK5
2023	665,000	5.000	1.080	114.418	DL3
2024	755,000	5.000	1.130	117.897	DM1
2025	845,000	5.000	1.180	121.223	DN9
2026	890,000	5.000	1.320	123.735	DP4
2027	935,000	5.000	1.370	126.647	DQ2
2028	990,000	5.000	1.480	128.829	DR0
2029	1,035,000	5.000	1.640	130.198	DS8
2030	1,090,000	5.000	1.770	128.843 ^C	DT6
2031	575,000	4.000	1.980	117.851 ^C	DU3
2032	330,000	4.000	2.070	116.980 ^C	DV1
2033	345,000	4.000	2.160	116.116 ^C	DW9
2034	2,355,000	5.000	2.020	126.283 ^C	DX7
2035	2,475,000	5.000	2.100	125.477 ^C	DY5
2036	2,590,000	4.000	2.390	113.943 ^C	DZ2
2037	2,690,000	4.000	2.450	113.384 ^C	EA6

\$30,000,000

**ESCONDIDO JOINT POWERS FINANCING AUTHORITY
WATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2019B (TAXABLE)**

\$15,730,000 Serial 2019B Bonds

<i>Maturity (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†]</i>
2020	\$ 785,000	1.834%	1.834%	100.000	EB4
2021	795,000	1.884	1.884	100.000	EC2
2022	815,000	1.969	1.969	100.000	ED0
2023	830,000	2.085	2.085	100.000	EE8
2024	855,000	2.185	2.185	100.000	EF5
2025	885,000	2.443	2.443	100.000	EG3
2026	910,000	2.593	2.593	100.000	EH1
2027	935,000	2.699	2.699	100.000	EJ7
2028	955,000	2.779	2.779	100.000	EK4
2029	990,000	2.829	2.829	100.000	EL2
2030	1,020,000	2.929	2.929	100.000	EM0
2031	1,680,000	2.999	2.999	100.000	EN8
2032	2,105,000	3.099	3.099	100.000	EP3
2033	2,170,000	3.149	3.149	100.000	EQ1

\$14,270,000 3.510% Term 2019B Bonds Due September 1, 2041, Yield 3.510%, Price: 100.000, CUSIP[†] ER9

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^C Priced to first optional redemption date of September 1, 2029 at par.

ESCONDIDO JOINT POWERS FINANCING AUTHORITY

BOARD OF COMMISSIONERS

Paul “Mac” McNamara, *Chair*
Consuelo Martinez, *Vice Chair*
John Masson, *Commissioner*
Olga Diaz, *Commissioner*
Michael Morasco, *Commissioner*

CITY OF ESCONDIDO

CITY COUNCIL

Paul “Mac” McNamara, *Mayor*
Consuelo Martinez, *Deputy Mayor*
John Masson, *Council Member*
Olga Diaz, *Council Member*
Michael Morasco, *Council Member*

STAFF

Jeffrey Epp, *City Manager*
Joan Ryan, *Finance Director*
Christopher W. McKinney, *Utilities Director*
Michael McGuinness, Esq., *City Attorney*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

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

Municipal Advisor

CSG Advisors Incorporated
San Francisco, California

Trustee

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

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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

This Official Statement is not to be construed as a contract with the purchasers or Owners of the 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 representations of fact.

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.

This Official Statement and the information that is contained herein are subject to completion or amendment without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties that are described herein since the date hereof. These securities may not be sold, nor may an offer to buy them be accepted, prior to the time that the Official Statement is delivered in final form. This Official Statement is being submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements which are included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained under the captions "THE CITY," "THE WATER SYSTEM" AND "FINANCIAL INFORMATION."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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

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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 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms that are used and not otherwise defined in this Summary Statement have the meanings ascribed to them in this Official Statement.

Purpose. The 2019A Bonds are being issued to provide funds: (i) to refund the City of Escondido Revenue Certificates of Participation, Series 2007 in full, as described under the caption “REFUNDING PLAN—2007 Certificates;” and (ii) to pay costs incurred in connection with the issuance of the 2019A Bonds.

The 2019B Bonds are being issued to provide funds: (i) to refund the Escondido Joint Powers Financing Authority Revenue Bonds (Water System Financing), Series 2012 in full, as described under the caption “REFUNDING PLAN—2012 Bonds;” and (ii) to pay costs incurred in connection with the issuance of the 2019B Bonds.

See the caption “ESTIMATED SOURCES AND USES OF FUNDS.”

Security for the Bonds. The Bonds are a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Series 2019 Installment Payments to be made by the City to the Authority pursuant to the Installment Purchase Agreement and amounts on deposit in certain funds and accounts established by the Indenture. Neither the full faith and credit nor any other revenues or funds of the Authority are pledged to or available for the payment of debt service on the Bonds. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the City to make Series 2019 Installment Payments is a special limited obligation of the City payable solely from Net Revenues of the City’s Water System, which consist of Revenues of the City’s Water System remaining after payment of Operation and Maintenance Costs. See the caption “SECURITY FOR THE BONDS.”

The obligation of the City to make the Series 2019 Installment Payments under the Installment Purchase Agreement is absolute and unconditional, and until such time as all payments that are required thereunder have been paid in full (or provision for the payment thereof has been made as provided for in the Installment Purchase Agreement), the City will not discontinue or suspend any Series 2019 Installment Payments required to be made by it under the Installment Purchase Agreement when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the 2007 Project or the 2012 Project has been completed, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

THE OBLIGATION OF THE CITY TO MAKE SERIES 2019 INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT 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 MAKE THE SERIES 2019 INSTALLMENT PAYMENTS IS A SPECIAL LIMITED 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.

No Reserve Fund. No reserve fund or account has been established under the Indenture or the Installment Purchase Agreement in connection with the issuance of the Bonds.

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 Water Service which are reasonably expected, at the commencement of each Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 120% of the Debt Service 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 shall 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. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

Parity Obligations. The City currently has three obligations payable from Net Revenues of the Water System on a parity with the Bonds. Such obligations were outstanding in the aggregate principal amount of \$17,540,553 as of June 30, 2019. See the caption “THE CITY—Outstanding Parity Obligations.”

Additional Indebtedness. The Installment Purchase Agreement does not permit the City to make any additional pledge of, or to place any additional lien on, the Revenues, or any portion thereof, which is senior to the pledge and lien securing the payment of the Series 2019 Installment Payments. The Installment Purchase Agreement does permit the City to incur Parity Bonds and Contracts payable on a parity with the Series 2019 Installment Payments provided that certain conditions are satisfied as described herein. Nothing in the Installment Purchase Agreement precludes the City from entering into obligations which are Operation and Maintenance Costs and, therefore, payable from Revenues prior to the Series 2019 Installment Payments, or from issuing any bonds or executing any contracts the payments under which are payable from Net Revenues on a subordinate basis to the Series 2019 Installment Payments, Parity Bonds and Contracts of the City. See the caption “SECURITY FOR THE BONDS—Additional Parity Bonds and Contracts.”

Redemption. The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. See the caption “THE BONDS—Redemption.”

The City and the Water System. The City was incorporated in 1888 under the general laws of the State of California. The City has a land area of approximately 37 square miles and an estimated population of 152,213 people as of January 1, 2019.

The City provides water service to approximately 24,085 residential, 2,765 commercial, industrial and other customers and 191 agricultural customers as of June 30, 2019. The City’s Water System includes approximately 436 miles of water mains, 5 water pump stations, 50 pressure reducing and regulating stations and 11 reservoirs which provide total operational storage of approximately 30.57 million gallons. Two City lakes, Dixon Lake and Lake Wohlford, are open to the public for recreational purposes and are used to store untreated water before its treatment at the City of Escondido-Vista Water Treatment Plant.

The City has local sources of water and also purchases imported water through the San Diego County Water Authority, a member of The Metropolitan Water District of Southern California.

See the captions “THE CITY,” “THE WATER SYSTEM” and “FINANCIAL INFORMATION” for further information about the City and the Water System.

\$20,380,000
ESCONDIDO JOINT POWERS
FINANCING AUTHORITY
WATER SYSTEM REVENUE
REFUNDING BONDS, SERIES 2019A

\$30,000,000
ESCONDIDO JOINT POWERS
FINANCING AUTHORITY
WATER SYSTEM REVENUE
REFUNDING BONDS, SERIES 2019B (TAXABLE)

INTRODUCTION

This Official Statement, including the front cover page, the inside front cover page and the appendices, provides certain information concerning the sale and delivery of the Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019A (the “**2019A Bonds**”) and the Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019B (Taxable) (the “**2019B Bonds**”) and, together with the 2019A Bonds, the “**Bonds**”). Descriptions and summaries of various documents that are 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 such document. Capitalized terms that are used and not otherwise defined in this Official Statement have the meanings ascribed thereto in Appendix B.

The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2019 (the “**Indenture**”), by and between the Escondido Joint Powers Financing Authority (the “**Authority**”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”). The Bonds are limited obligations of the Authority payable solely from Authority Revenues, which consist of payments (the “**Series 2019 Installment Payments**”) to be made by the City of Escondido (the “**City**”) to the Authority pursuant to an Installment Purchase Agreement (the “**Installment Purchase Agreement**”), dated as of November 1, 2019, by and between the City and the Authority, and amounts on deposit in certain funds and accounts established by the Indenture.

The obligation of the City to make Series 2019 Installment Payments is a special limited obligation of the City payable solely from Net Revenues of the City’s Water System, which consist of Revenues of the City’s Water System remaining after payment of Operation and Maintenance Costs. See the caption “**SECURITY FOR THE BONDS.**”

The 2019A Bonds are being issued to provide funds: (i) to refund the City of Escondido Revenue Certificates of Participation, Series 2007 (the “**2007 Certificates**”) in full, as described under the caption “**REFUNDING PLAN;**” and (ii) to pay costs incurred in connection with the issuance of the 2019A Bonds.

The 2019B Bonds are being issued to provide funds: (i) to refund the Escondido Joint Powers Financing Authority Revenue Bonds (Water System Financing), Series 2012 (the “**2012 Bonds**”) in full, as described under the caption “**REFUNDING PLAN—2012 Bonds;**” and (ii) to pay costs incurred in connection with the issuance of the 2019B Bonds.

See the caption “**ESTIMATED SOURCES AND USES OF FUNDS.**”

The City has undertaken to provide annual reports to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (“**EMMA**”) pursuant to a continuing disclosure certificate. See the caption “**CONTINUING DISCLOSURE**” and Appendix E.

REFUNDING PLAN

2007 Certificates

The City caused the 2007 Certificates, which are currently outstanding in the aggregate principal amount of \$23,945,000, to be executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2007 (the “**2007 Trust Agreement**”), by and among the Authority, the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**2007 Trustee**”). The 2007 Certificates are payable from installment payments made under the Installment Purchase Agreement, dated as of September 1, 2007 (the “**2007 IPA**”), by and between the City and the Authority. The City and the Authority plan to apply a portion of the proceeds of the 2019A Bonds, together with moneys held in certain funds and accounts established in connection with the 2007 Certificates, to prepay the 2007 Certificates in full on or about the date of issuance of the 2019A Bonds (for the purposes of this caption, the “**Prepayment Date**”).

The 2007 Certificates will be prepaid at a prepayment price equal to the outstanding principal amount thereof, plus accrued interest with respect thereto, without premium (the “**Prepayment Price**”). In order to prepay the 2007 Certificates, the City and the Authority will cause to be delivered a portion of the proceeds of the 2019A Bonds to the 2007 Trustee on or about the date of issuance of the 2019A Bonds. The 2007 Trustee will apply such moneys, together with certain moneys held by the 2007 Trustee in funds and accounts established in connection with the 2007 Certificates, to pay the Prepayment Price on the Prepayment Date.

As a result of the application of such moneys, the 2007 Certificates will be defeased and prepaid pursuant to the provisions of the 2007 Trust Agreement and the 2007 IPA as of the Prepayment Date.

The portion of the proceeds of the 2019A Bonds and the moneys held by the 2007 Trustee in connection with the 2007 Certificates are pledged solely to the payment of the Prepayment Price, and will not be available for the payments of principal of and interest on the Bonds.

2012 Bonds

The Authority issued the 2012 Bonds, which are currently outstanding in the aggregate principal amount of \$27,630,000, pursuant to an Indenture of Trust, dated as of February 1, 2012 (the “**2012 Indenture**”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**2012 Trustee**”). The 2012 Bonds are payable from installment payments made under the Installment Purchase Agreement, dated as of February 1, 2012 (the “**2012 IPA**”), by and between the City and the Authority. The Authority plans to apply a portion of the proceeds of the 2019B Bonds to refund the 2012 Bonds in full as described below.

Under an Escrow Agreement (2012 Bonds), dated as of November 1, 2019 (the “**2012 Escrow Agreement**”), by and among the City, the Authority and the 2012 Trustee, the Authority will deliver a portion of the proceeds of the 2019B Bonds to the 2012 Trustee for deposit in the escrow fund established under the 2012 Escrow Agreement (the “**2012 Escrow Fund**”). In addition, the Authority will cause the 2012 Trustee to deposit into the 2012 Escrow Fund certain moneys held by the 2012 Trustee in funds and accounts established in connection with the 2012 Bonds. The 2012 Trustee will invest a portion of the amounts deposited in the 2012 Escrow Fund as set forth in the 2012 Escrow Agreement. From the moneys on deposit in the 2012 Escrow Fund and the investment earnings thereon, the 2012 Trustee will make the regularly scheduled payments of principal of and interest on the 2012 Bonds on and prior to March 1, 2022 and pay on March 1, 2022 the principal of the 2012 Bonds maturing after such date, plus interest accrued to such date, without premium.

Sufficiency of the deposits in the 2012 Escrow Fund for such purposes will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the “**Verification Agent**”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2012 Escrow Agreement,

the 2012 Bonds will be defeased pursuant to the provisions of the 2012 IPA and the 2012 Indenture under which the 2012 Bonds were delivered, as of the date of issuance of the 2019B Bonds.

Upon the issuance of the 2019B Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to the adequacy of the moneys deposited in the 2012 Escrow Fund to pay, on March 1, 2022, the redemption price of the 2012 Bonds maturing after March 1, 2022.

The amounts held by the 2012 Trustee in the 2012 Escrow Fund are pledged solely to the payment of the 2012 Bonds. Neither the funds deposited in the 2012 Escrow Fund nor any interest thereon will be available for the payments of principal of and interest on the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the Bonds:

Sources⁽¹⁾	2019A Bonds	2019B Bonds	Total
Principal Amount of Bonds	\$ 20,380,000	\$ 30,000,000	\$ 50,380,000
Plus Original Issue Premium	4,075,162	-	4,075,162
Other Moneys ⁽²⁾	349	424	773
Total Sources	\$ 24,455,511	\$ 30,000,424	\$ 54,455,935
Uses⁽¹⁾			
Transfer to 2007 Trustee for Refunding of 2007 Certificates	\$ 24,210,684	\$ -	\$ 24,210,684
Transfer to 2012 Trustee for Refunding of 2012 Bonds	-	29,834,705	29,834,705
Costs of Issuance ⁽³⁾	244,827	165,719	410,546
Total Uses	\$ 24,455,511	\$ 30,000,424	\$ 54,455,935

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

(2) Reflects moneys held in funds and accounts related to the 2007 Certificates or the 2012 Bonds, as applicable.

(3) Includes certain legal, municipal advisory, financing, rating agency, Verification Agent and Trustee fees, Underwriter's discount and printing costs.

THE BONDS

General Provisions

The Bonds will be issued in the aggregate principal amount of \$50,380,000. The Bonds will bear interest from and be dated the date of initial issuance, and will be payable upon maturity on the dates set forth on the inside front cover page hereof. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2020. Interest will be calculated at the rates set forth on the inside front cover page hereof on the basis of a year of 360 days comprised of twelve 30 day months.

The Bonds will be delivered 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 Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See the caption "—Book-Entry Only System" and Appendix D.

In the event that the book-entry only system that is described below is discontinued, the principal of and interest on any Bond will be 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. Such principal and interest will be payable in lawful money of the United States of America.

Book-Entry Only System

One fully-registered Bond will be issued for each maturity of the Bonds in the principal amount of the Bonds of such maturity. Each such Bond will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the Bonds is registered in the name of Cede & Co., the term “**Owner**” as used in this Official Statement will refer to Cede & Co. and not to the actual purchasers of the Bonds (the “**Beneficial Owners**”).

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 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 Authority cannot and does not give any assurances that DTC participants or others will distribute payments with respect to the 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.

Transfers and Exchanges Upon Termination of Book-Entry Only System

In the event that the book-entry system that is described above is discontinued, the Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 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 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 Bond during the period in which the Trustee is selecting Bonds for redemption and any Bond that has been selected for redemption.

Whenever any Bond is surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or 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 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 Bonds, the Trustee will cancel and destroy the Bonds that it has received.

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. The Trustee is not required to exchange any Bond during the period in which the Trustee is selecting Bonds for redemption or any Bond that has been selected for redemption. The Trustee will require the 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 Bonds, the Trustee will cancel and destroy the Bonds that it has received.

Redemption

2019A Bonds. The 2019A Bonds with stated maturities on or after September 1, 2030, are subject to redemption prior to their respective stated maturities, as a whole or in part as directed by the Authority in a Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, on September 1, 2029 or any date thereafter at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

2019B Bonds.

Optional Redemption. The 2019B Bonds with stated maturities on or after September 1, 2030, are subject to redemption prior to their respective stated maturities, as a whole or in part as directed by the Authority in a Request provided to the Trustee at least 35 days (or such lesser number of days acceptable to the Trustee in the sole discretion of the Trustee, such notice for the convenience of the Trustee) and by lot within each maturity in integral multiples of \$5,000, on September 1, 2029 or any date thereafter at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2019B Bonds with stated maturities on September 1, 2041 are subject to mandatory sinking fund redemption in part (by lot) on September 1, 2034 and each September 1 thereafter, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
2034	\$ 265,000
2035	275,000
2036	290,000
2037	305,000
2038	3,110,000
2039	3,225,000
2040	3,340,000
2041*	3,460,000

* Final Maturity.

If some but not all of the 2019B Bonds maturing on September 1, 2041 are redeemed as described under the subcaption “—Optional Redemption,” the principal amount of the applicable 2019B Bonds to be redeemed pursuant to the Indenture on any subsequent September 1 will be reduced, by \$5,000 or an integral multiple thereof, as designated by the Authority in a Certificate of the Authority filed with the Trustee; provided, however, that the aggregate amount of such reductions may not exceed the aggregate amount of the applicable 2019B Bonds redeemed.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered and of the same series, interest rate and maturity.

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds for redemption as a whole or in part on any date as directed by the Authority and by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture. The Trustee will promptly notify the Authority in writing of the numbers of the Bonds or portions thereof so selected for redemption.

Notice of Redemption

Notice of redemption will be mailed by first class mail not less than 20 days nor more than 60 days before any Redemption Date, to the respective Owners of any Bonds that are designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and the Information Services. Each notice of redemption will state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, and will designate the maturities, CUSIP numbers, if any, and, in the case of 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 Bonds or parts thereof that are designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 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 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 Bond. Notice of redemption of Bonds will be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption will be 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 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 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.

Effect of Redemption

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

DEBT SERVICE SCHEDULE

Set forth below is a schedule of debt service on the Bonds and outstanding Parity Bonds and Contracts (excluding the 2007 Certificates and the 2012 Bonds, which are expected to be refunded from proceeds of the Bonds as described under the caption “REFUNDING PLAN”), which equals the Series 2019 Installment Payments for each annual period ending on June 30 in the years indicated.

<i>Period Ending June 30</i>	<i>Parity Bonds and Contracts⁽¹⁾</i>	<i>Series 2019 Installment Payments Attributable to 2019A Bonds</i>			<i>Series 2019 Installment Payments Attributable to 2019B Bonds</i>			<i>Total Debt Service</i>
		<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	
2020	\$ 440,804.00	\$ -	\$ 247,013.19	\$ 247,013.19	\$ -	\$ 243,071.12	\$ 243,071.12	\$ 930,888.31
2021	1,133,353.00	580,000.00	927,350.00	1,507,350.00	785,000.00	913,913.15	1,698,913.15	4,339,616.15
2022	1,132,208.00	605,000.00	906,550.00	1,511,550.00	795,000.00	899,225.80	1,694,225.80	4,337,983.80
2023	1,131,029.00	630,000.00	878,700.00	1,508,700.00	815,000.00	883,713.23	1,698,713.23	4,338,442.23
2024	1,129,815.00	665,000.00	846,325.00	1,511,325.00	830,000.00	867,036.81	1,697,036.81	4,338,176.81
2025	1,063,105.00	755,000.00	810,825.00	1,565,825.00	855,000.00	849,043.18	1,704,043.18	4,332,973.18
2026	996,358.00	845,000.00	770,825.00	1,615,825.00	885,000.00	828,892.03	1,713,892.03	4,326,075.03
2027	995,031.00	890,000.00	727,450.00	1,617,450.00	910,000.00	806,283.61	1,716,283.61	4,328,764.61
2028	993,665.00	935,000.00	681,825.00	1,616,825.00	935,000.00	781,867.63	1,716,867.63	4,327,357.63
2029	992,257.00	990,000.00	633,700.00	1,623,700.00	955,000.00	755,980.08	1,710,980.08	4,326,937.08
2030	990,807.00	1,035,000.00	583,075.00	1,618,075.00	990,000.00	728,706.81	1,718,706.81	4,327,588.81
2031	989,314.00	1,090,000.00	529,950.00	1,619,950.00	1,020,000.00	699,765.36	1,719,765.36	4,329,029.36
2032	897,019.00	575,000.00	491,200.00	1,066,200.00	1,680,000.00	659,635.86	2,339,635.86	4,302,854.86
2033	805,502.00	330,000.00	473,100.00	803,100.00	2,105,000.00	601,827.28	2,706,827.28	4,315,429.28
2034	803,871.00	345,000.00	459,600.00	804,600.00	2,170,000.00	535,043.65	2,705,043.65	4,313,514.65
2035	802,190.00	2,355,000.00	393,825.00	2,748,825.00	265,000.00	496,226.25	761,226.25	4,312,241.25
2036	800,459.00	2,475,000.00	273,075.00	2,748,075.00	275,000.00	486,749.25	761,749.25	4,310,283.25
2037	798,676.00	2,590,000.00	159,400.00	2,749,400.00	290,000.00	476,833.50	766,833.50	4,314,909.50
2038	796,840.00	2,690,000.00	53,800.00	2,743,800.00	305,000.00	466,391.25	771,391.25	4,312,031.25
2039	794,948.00	-	-	-	3,110,000.00	406,458.00	3,516,458.00	4,311,406.00
2040	793,000.00	-	-	-	3,225,000.00	295,278.75	3,520,278.75	4,313,278.75
2041	790,993.00	-	-	-	3,340,000.00	180,063.00	3,520,063.00	4,311,056.00
2042	788,926.00	-	-	-	3,460,000.00	60,723.00	3,520,723.00	4,309,649.00
2043	786,797.00	-	-	-	-	-	-	786,797.00
2044	784,604.00	-	-	-	-	-	-	784,604.00
2045	782,345.00	-	-	-	-	-	-	782,345.00
2046	780,019.00	-	-	-	-	-	-	780,019.00
2047	777,623.00	-	-	-	-	-	-	777,623.00
2048	775,155.00	-	-	-	-	-	-	775,155.00
2049	772,613.00	-	-	-	-	-	-	772,613.00
TOTAL	\$ 26,319,326.00	\$20,380,000.00	\$10,847,588.19	\$31,227,588.19	\$30,000,000.00	\$13,922,728.60	\$43,922,728.60	\$101,469,642.79

⁽¹⁾ Includes debt service on obligations described under the caption “THE CITY—Outstanding Parity Obligations.”
Source: Underwriter.

SECURITY FOR THE BONDS

General

Each Bond is a special limited obligation of the Authority payable solely from Authority Revenues, which consist of Series 2019 Installment Payments to be made by the City under the Installment Purchase Agreement and certain other funds and accounts established pursuant to the Indenture. NEITHER THE FULL FAITH AND CREDIT NOR ANY OTHER REVENUES OR FUNDS OF THE AUTHORITY ARE PLEDGED TO OR AVAILABLE FOR THE PAYMENT OF DEBT SERVICE ON THE BONDS. THE OBLIGATION OF THE AUTHORITY TO MAKE PAYMENTS OF PRINCIPAL AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE AUTHORITY HAS NO TAXING POWER.

The Authority has assigned substantially all of its right, title and interest in the Installment Purchase Agreement to the Trustee pursuant to the Indenture, for the benefit of the Owners of the Bonds, including its right to receive Series 2019 Installment Payments and its rights as may be necessary to enforce payment of the Series 2019 Installment Payments when due.

Series 2019 Installment Payments Payable From Net Revenues

All of the Authority Revenues and any other amounts (including proceeds of the sale of the 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 Bonds in accordance with their terms and the provisions of the Indenture. Such pledge constitutes a lien on and security interest in such amounts 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 Authority, irrespective of whether such parties have notice hereof.

The obligation of the City to make the Series 2019 Installment Payments is payable solely from Net Revenues of the City's Water System, which consist of Revenues of City's Water System remaining after the payment of Operation and Maintenance Costs of the City's Water System. All Revenues (as such term is defined below) of the City's Water System and all amounts on deposit in the Revenue Fund have been irrevocably pledged to the payment of the Series 2019 Installment Payments as provided in the Installment Purchase Agreement. The Revenues will not be used for any other purpose while any of the Series 2019 Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement, including but not limited to the payment of Operation and Maintenance Costs of the Water System. Such pledge, together with the pledge created by all other Bonds and Contracts (as such terms are defined in Appendix B under the caption "INSTALLMENT PURCHASE AGREEMENT—Definitions" and referred to in the forepart of this Official Statement as "**Parity Bonds and Contracts**" or "**Parity Bonds or Contracts**," as applicable), constitutes a first lien on Revenues and, subject to application of Revenues and all amounts on deposit in the Revenue Fund as permitted in the Installment Purchase Agreement, the Revenue Fund and other funds and accounts created thereunder for the payment of the Series 2019 Installment Payments and all other Parity Bonds and Contracts in accordance with the terms thereof and of the Indenture.

The term "**Revenues**" means all income, rents, rates, fees, charges and other moneys derived from the ownership of or operation of the Water System, including, without limiting the generality of the foregoing: (1) all in lieu charges and groundwater augmentation charges (including investment earnings thereon) collected by or on behalf of the City; (2) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of the water, drainage or other

services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System; and (3) 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: (w) revenues of the City's recycled water system; (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) proceeds of taxes or benefit assessments restricted by law to be used by the City to pay amounts due on bonds or other obligations hereafter incurred; and (z) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities (as such term is defined in Appendix B under the caption "INSTALLMENT PURCHASE AGREEMENT—Definitions"). There are currently no Separate Facilities.

The term "**Operation and Maintenance Costs**" means: (1) costs spent or incurred for maintenance and operation of the Water 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 Water System in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Water 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 Bonds or of this Installment Purchase Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Parity Bonds or of such Parity Bonds; and (2) all payments under any contract for the purchase of water; but excluding in all cases operation and maintenance costs of the City's recycled water system, depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Notwithstanding anything contained in the Installment Purchase Agreement, the City is not required to advance any moneys derived from any source of income other than the Revenues and the Revenue Fund for the payment of amounts due under the Installment Purchase Agreement or for the performance of any agreements or covenants that are required to be performed by it contained therein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

THE OBLIGATION OF THE CITY TO MAKE SERIES 2019 INSTALLMENT PAYMENTS PURSUANT TO THE INSTALLMENT PURCHASE AGREEMENT 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 MAKE THE SERIES 2019 INSTALLMENT PAYMENTS IS A SPECIAL LIMITED OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES OF THE CITY'S WATER SYSTEM AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE 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 ending June 30 (each, a "**Fiscal Year**"), rates and charges for the Water Service which are reasonably expected, at the commencement of each Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 120% of the Debt Service 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 shall 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 Parity 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 Parity Bonds or Contracts, provided that no such compliance with any other rate covenant will cause the City to fail to comply with the foregoing rate covenant.

So long as the City has complied with its obligations set forth in the prior paragraph, the failure of Net Revenues to meet the thresholds set forth in the prior paragraph will not constitute a default or an Event of Default under the Installment Purchase Agreement or the Indenture.

No Reserve Fund

No reserve fund or account has been established under the Indenture or the Installment Purchase Agreement in connection with the issuance of the Bonds.

Additional Parity Bonds and Contracts

The City may at any time execute any Contract or issue any Parity Bonds, as the case may be, in accordance herewith; provided:

(a) The Net Revenues for the most recent audited Fiscal Year preceding the date of adoption by the City Council of the City of the resolution authorizing the issuance of such Parity 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 120% of the Debt Service for such Fiscal Year; and

(b) The Net Revenues for the most recent audited Fiscal Year 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 Parity Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water 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 120% of the Debt Service for such Fiscal Year plus the Debt Service which would have accrued had such Contract been executed or Parity Bonds been issued at the beginning of such Fiscal Year.

Notwithstanding the foregoing, Bonds issued or Contracts executed to refund outstanding Bonds or prepay outstanding Contracts may be delivered without satisfying the conditions set forth above if aggregate Debt Service after such Bonds are issued or Contracts executed is not greater than the aggregate Debt Service which would have been payable prior to the issuance of such Bonds or execution of such Contracts.

THE CITY

General

The City was incorporated in 1888 under the general laws of the State of California (the “**State**”). The City has a land area of approximately 37 square miles and an estimated population of 152,213 people as of January 1, 2019. Land use in the City is primarily residential, with areas of commercial and industrial development and areas devoted to agriculture. See the caption “—Land Use and Service Area.” The City provides a wide range of services, such as public works (including water and wastewater services), police and fire, library, economic development, parks and recreation and land and building development.

The City is located in the County of San Diego (the “**County**”), in a long valley surrounded by coastal mountains approximately eighteen miles inland and thirty miles north of downtown San Diego. The City is

situated at the confluence of Interstate 15 and State Route 78. With its location near the confluence of these freeways, the City has access to major employment centers and tourist destinations in southern California. 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.

The City provides water service to approximately 24,085 residential, 2,765 commercial, industrial and other customers and 191 agricultural customers as of June 30, 2019. The City’s Water System includes approximately 436 miles of water mains, 5 water pump stations, 50 pressure reducing and regulating stations and 11 reservoirs which provide total operational storage of approximately 30.57 million gallons. Two City lakes, Dixon Lake and Lake Wohlford, are open to the public for recreational purposes and are used to store untreated water before its treatment at the City of Escondido-Vista Water Treatment Plant (the “**Water Treatment Plant**”), which has a design capacity of 75 million gallons per day (“**MGD**”), of which 60 MGD is owned by the City. In addition, the City and Vista Irrigation District (“**VID**”) jointly maintain the Escondido Canal, a concrete-lined canal built in the 1890s which diverts water from the San Luis Rey River in the hillsides north of the City to Lake Wohlford.

The City has local sources of water and also purchases imported water through the San Diego County Water Authority (“**SDCWA**”), a member of The Metropolitan Water District of Southern California (“**MWD**”).

Land Use and Service Area

The Water System provides water to approximately 80% of the geographic area of the City and to certain unincorporated areas adjoining the City. The service area is largely built out and encompasses single family and multi-family residences as well as areas of commercial, industrial and agricultural land uses. In Fiscal Year 2019, single family residential customers consumed approximately 43% of the water served by the City, multi-family residential customers consumed approximately 21% of the water served by the City, agricultural customers consumed approximately 13% of the water served by the City, commercial, industrial and school customers consumed approximately 12% of the water served by the City and irrigation and all other customers, including the San Diego Safari Park, consumed approximately 10% of the water served by the City. Rincon Municipal Water District (“**Rincon MWD**”), an independent water district, services the remaining 20% of the geographic area of the City that is not served by the Water System.

Governance and Management

General. The City is governed by a Mayor, who is elected at large, and a four-member City Council, the members of which are elected by district for staggered four year terms. The current Mayor and City Council members and the expiration dates of their terms are set forth below.

**CITY OF ESCONDIDO
Mayor and City Council Members**

<i>Name and Title</i>	<i>Expiration of Term</i>
Paul “Mac” McNamara, Mayor	December 2022
Consuelo Martinez, Deputy Mayor and Council Member, District 1	December 2022
John Masson, Council Member, District 2	December 2022
Olga Diaz, Council Member, District 3	December 2020
Michael Morasco, Council Member, District 4	December 2020

The City Manager, who is appointed by the City Council, serves as the City’s chief executive officer and is responsible for overseeing the daily operations of City departments. The City Manager serves as an advisor to the City Council on policy matters impacting the community and the City’s organization, supports the informational and policymaking needs of the City Council, implements City Council decisions and

prepares, manages and implements the annual budgets for the City as well as the City's Capital Improvement Program.

Jeffrey R. Epp has served as the City Manager since 2017. Mr. Epp has been with the City since 1985 and previously served as the City Attorney. Prior to coming to the City, 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 Associations. 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.

Other key personnel responsible for management of the Water System include the Director of Finance and the Director of Utilities.

Joan Ryan is the Director of Finance of the City. Ms. Ryan has been with the City since 2001. She has served in several management positions in the City's Finance Department, including Revenue Manager and Assistant Director of Finance. Prior to coming to the City, Ms. Ryan was an Accountant at Palomar Community College for 13 years. Ms. Ryan obtained a Bachelor's degree in Economics from Illinois Wesleyan University and a Master of Science in Accounting from San Diego State University. Ms. Ryan 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 of the City. Mr. McKinney has been with the City since 2011. Mr. McKinney previously served as Deputy Director of Wastewater Treatment and Disposal in the Public Utilities Department of the City of San Diego beginning in 2009 and as the 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 obtained Bachelor's and Master of Engineering degrees in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology and a Candidate in Philosophy degree in Electrical and Computer Engineering from the University of California San Diego. Mr. McKinney is a Registered Professional Electrical Engineer in California.

Management Policies. The City has adopted several policies designed to ensure the prudent and effective management of City operations, including an investment policy, a budgetary and financial policy, a fund balance policy and a debt management policy. Further information about each such policy is set forth below.

Investment Policy. The City invests its funds in accordance with the City's investment policy (the "**Investment Policy**"), which was most recently amended in May 2019. The Investment Policy sets forth the policies and procedures that are applicable to the investment of City funds and designates eligible investments. The Investment Policy also sets forth stated objectives, including the assurance of the safety of invested funds by limiting credit and market risks, the maintenance of sufficient liquidity, compliance with law and the attainment of the best yield or returns on investments. Funds are invested in the following order of priority:

- Safety of Principal;
- Liquidity; and
- Yield.

The City Council has delegated the authority to invest funds of the City to the City Treasurer, who must invest City funds in accordance with the prudent person standard under California Civil Code § 2261 *et seq.*

The Investment Policy provides a number of permitted investment categories, including: (i) the State of California Local Agency Investment Fund; (ii) the San Diego County Investment Pool for local agencies; (iii) United States Treasury securities and other federal government securities; (iv) FDIC-insured or negotiable certificates of deposit (limited to 30% of the portfolio); (v) banker's acceptances (limited to 30% of the portfolio); (vi) commercial paper meeting certain rating requirements (limited to 270-day maturities and 25% of the portfolio); (vii) money market mutual funds (limited to 20% of the portfolio); and (viii) municipal securities meeting certain rating requirements.

As of June 30, 2019, the City had total moneys invested in the amount of \$166,885,584 in permitted investments under the Investment Policy. Of such amounts, approximately 15% were allocated to the Water System.

The City Treasurer is required to provide a quarterly report to the City Manager and the City Council detailing the City's investments, dates of maturity, amounts invested, current market value, rate of interest and other such information as may be required by the City Council. For additional information relating to the Investment Policy, see Note 3 to the City's audited financial statements set forth in Appendix A.

Budgetary and Financial Policy. The City's budgetary and financial policy, which is updated annually as part of the City's budget, includes the following elements: (i) each annual budget must be structurally balanced for each Fiscal Year, although revenues may be applied to one-time items such as capital costs; (ii) each annual budget must include a minimum General Fund financial projection of three years; (iii) mid-Fiscal Year budget changes should be minimized; (iv) one-time revenues should not be applied to ongoing costs; (v) capital project funding should also reflect ongoing operating costs associated with new capital projects; (vi) staff will provide the City Council with a fiscal analysis of each matter before the City Council which could impact City finances; (vii) the City will periodically assess the condition of the City's capital assets; and (viii) the City will review its financial and budgetary policies at least once every three years.

In addition, the City's budgetary and financial policy establishes a target reserve amount of 25% of General Fund operating revenues, which is available to fund one-time unanticipated costs or to cover operating deficits. As of June 30, 2019, the reserve balance is \$17,392,319, which constitutes approximately 17% of General Fund operating revenues.

On February 14, 2018, the City Council authorized the establishment of an irrevocable pension benefit funding trust (the "**Section 115 Trust**") to assist in ensuring the long-term sustainability of pension benefits. The Section 115 Trust was initially funded with a deposit of \$1,984,000 from the previously established Pension Rate Smoothing Reserve. As of June 30, 2019, the balance in the Section 115 Trust was \$7,013,035. See the caption "FINANCIAL INFORMATION—Employee Benefits—Pension Obligations."

Fund Balance Policy. Under the City's fund balance policy, which was adopted in 2015: (i) a City Council decision to withdraw money from the City's reserve funds (discussed above under the subcaption "—Budgetary and Financial Policy") must include a method for replenishing the reserve funds and the time period to do so; (ii) committed fund balances in special revenue funds may be used only for the purposes set forth in the fund balance policy; (iii) the Finance Director is authorized to assign moneys held in the City's assigned funds.

Debt Management Policy. The City's debt management policy addresses the matters that are required by California Government Code § 8855(i), including: (i) the purposes for which debt proceeds may be used; (ii) the types of debt that may be issued; (iii) the relationship of the debt to, and integration with, the City's capital improvement program or budget; (iv) policy goals related to the City's planning goals and

objectives; and (v) the internal control procedures which ensure that the proceeds of each debt issuance are directed to their intended use. The debt management policy also includes policies and procedures governing the City's continuing disclosure compliance. See the caption "CONTINUING DISCLOSURE."

Employees

As of June 30, 2019, the City had approximately 954.9 full-time equivalent employees, of whom approximately 68 worked solely on behalf of the Water System. Certain employees of the Public Works Department are represented by the Escondido City Employees Association (the "ECEA") and the Maintenance and Operations Bargaining Unit, Teamsters Local 911 (the "M&O Unit"). Relations between the City and the ECEA are governed by a memorandum of understanding which expires on June 30, 2020 and relations between the City and the M&O Unit are governed by a memorandum of understanding which expires on June 30, 2021. Certain management, supervisory and professional employees are unrepresented. The City has never experienced a strike, slowdown or work stoppage.

Budget Process

The City prepares and adopts a budget for each Fiscal Year which includes proposed expenditures and the means of financing such expenditures. The City's budget cycle begins in or about December of each year, when Budget Division staff meet with City departments to discuss guidelines, assumptions and priorities for the next Fiscal Year. Beginning in January of each year, departments develop and submit their budget requests for the next Fiscal Year and meet with Finance Department staff to discuss such requests. In or about March of each year, once the Budget Division agrees that department requests are consistent with budget direction and policy, such requests are summarized and presented to the City Manager. In or about May of each year, the City Manager submits a preliminary proposed budget to the City Council for the Fiscal Year commencing the following July 1. Prior to June 30 of each year, public hearings are conducted to obtain public comments and the budget is legally enacted through the passage of a resolution.

The City Manager is authorized to transfer budgeted amounts between line items within a department or activity provided that the total appropriation does not exceed the budgeted amount. Any other budget amendments require authorization by the City Council. The City Manager and affected department heads are mutually responsible for controlling expenditures within budgeted appropriations.

The City Council adopted the Fiscal Year 2020 budget on June 12, 2019.

City Insurance

The City maintains liability insurance coverage through the California State Association of Counties-Excess Insurance Authority ("CSAC-EIA"), a joint exercise of powers authority. The City is insured for amounts up to \$50,000,000.

The City is self-insured for workers' compensation liabilities 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 CSAC-EIA, with additional reinsurance of \$300,000,000 per occurrence.

The City purchases risk, replacement cost value property insurance coverage through CSAC-EIA. The City is one of 109 members insured by a pooled policy with a shared limit of \$600,000,000. The City has a deductible of \$10,000 per loss. All facilities and equipment at the Water Treatment Plant described under the caption "THE WATER SYSTEM—Water Treatment Plant" are insured under the City's property insurance coverage, as are all City-owned pump stations and reservoirs. The Escondido Canal, which carries potable water from Lake Henshaw to the Water Treatment Plant, is also insured for \$11,000,000; however, Water System pipelines are not otherwise covered by property insurance. See the caption "THE WATER SYSTEM—Water Supply—Local Water Supply." The City does not carry earthquake coverage.

See the captions “THE WATER SYSTEM—Seismic Considerations—Lake Wohlford Dam” and “CERTAIN RISKS TO BONDHOLDERS—Natural Disasters.”

The City has not settled any claims that exceeded its insurance coverages in the past three years.

The City can provide no assurance that it will maintain the above insurance coverage amounts while the Bonds are outstanding. See Appendix B under the caption “INSTALLMENT PURCHASE AGREEMENT—Covenants of the City—Insurance” for a description of insurance coverages that are required to be maintained while the Bonds are Outstanding.

Outstanding Parity Obligations

2002 State Loan. In 2002, the City entered into a loan contract (the “**2002 State Loan**”) with the State of California Department of Water Resources (“**DWR**”) to finance certain Water System capital projects. The 2002 State Loan was outstanding in the aggregate principal amount of \$611,538 as of June 30, 2019 and is payable in level semiannual installments of \$65,459 at interest rates of between 1.94% and 3.16%. The final payment under the 2002 State Loan is due on July 1, 2024. The obligation of the City to make payments on the 2002 State Loan is payable from Revenues on a parity with the Series 2019 Installment Payments.

Alexander Area Phase II State Loan. In 2011, the City entered into a loan contract (the “**Alexander Area Phase II State Loan**”) with the State of California Department of Public Health to finance certain Water System capital projects. The Alexander Area Phase II State Loan was outstanding in the aggregate principal amount of \$1,929,015 as of June 30, 2019 and is payable in level semiannual installments of \$89,817 at an interest rate of 2.5017%. The final payment under the Alexander Area Phase II State Loan is due on September 1, 2031. The obligation of the City to make payments on the Alexander Area Phase II State Loan is payable from Revenues on a parity with the Series 2019 Installment Payments.

I-Bank Agreement. In 2019, the City entered into an Installment Sale Agreement, dated as of June 1, 2019 (the “**I-Bank Agreement**”), with the California Infrastructure and Economic Development Bank to finance certain Water System capital projects. The I-Bank Agreement was outstanding in the aggregate principal amount of \$15,000,000 as of June 30, 2019 and is payable in semiannual installments at an interest rate of 3%. The final payment under the I-Bank Agreement is due on August 1, 2048. The obligation of the City to make payments on the I-Bank Agreement is payable from Revenues on a parity with the Series 2019 Installment Payments.

THE WATER SYSTEM

General

The City provides water service to approximately 24,085 residential, 2,765 commercial, industrial and other customers and 191 agricultural customers as of June 30, 2019. The City’s Water System includes approximately 436 miles of water mains, 5 water pump stations to serve small, high elevation areas, 50 pressure reducing and regulating stations and 11 reservoirs which provide total operational storage of approximately 30.57 million gallons.

Two City lakes, Dixon Lake and Lake Wohlford, are open to the public for recreational purposes. Both lakes are contained by dams which are maintained by the City. The lakes are used to store untreated water before its treatment at the Water Treatment Plant, which has a design capacity of 75 MGD, of which 60 MGD is owned by the City. See the caption “—Water Treatment Plant.”

In addition, the City and VID jointly maintain the Escondido Canal, a concrete-lined canal built in the 1890s that diverts water from the San Luis Rey River in the hillsides north of the City to Lake Wohlford.

The City has local sources of water and also purchases untreated imported water through SDCWA, a member of MWD. See the caption “—Water Supply.”

Water Treatment Plant

The Water Treatment Plant, which is adjacent to Dixon Lake Dam, treats water from the City’s water supply before it is delivered to customers. The Water Treatment Plant was constructed in 1976 and expanded in 1983. All water, local and imported, that the City delivers through the Water System is treated at the Water Treatment Plant.

The Water Treatment Plant originally had a design capacity of 90 MGD, but its capacity was downgraded to 75 MGD by the State Water Resources Control Board (the “**SWRCB**”) in order to comply with certain regulatory limits for filter flow. Sixty MGD of such capacity is owned by the City and 15 MGD of such capacity is owned by VID. Typical peak demand on the Water Treatment Plant has been approximately 55 MGD, with average flow of approximately 32 MGD and average peak summer demand of approximately 50 MGD. There are no current plans to expand the capacity of the Water Treatment Plant, and demand on the Water Treatment Plant may not increase significantly in the future if recycled water sales increase. See the caption “—Effect of Recycled Water.” All water, imported and local, comes to the Water Treatment Plant in an untreated condition.

The treatment process at the Water Treatment Plant includes pretreatment (chemical oxidation), coagulation, flocculation, filtration, sedimentation and disinfection to ensure destruction of pathogenic organisms. Water enters the Water Treatment Plant through a 54-inch diameter pipe. Chemicals are then added to assist in the treatment process. After chemical treatment and removal of organic components and suspended materials, the water is filtered through beds of anthracite coal and sand supported by graded rock. Bacteriological, physical and chemical tests are performed on water samples from the source during treatment and from the distribution system to assure the delivery of safe water to customers. Process variables of pH, turbidity, chlorine residual and fluoride concentration are monitored continuously. After treatment, water is distributed from the Water Treatment Plant to VID and throughout the City and various portions of the water system of Rincon MWD (pursuant to exchange agreements) through a system of pipelines and reservoirs.

The City and VID own the Water Treatment Plant pursuant to a Joint Powers Agreement that was initially executed in 1971. Under the agreement, the City owns and operates the Water Treatment Plant and has rights to 80% (60 MGD) of production capacity. VID has rights to the other 20% (15 MGD) of production capacity. The agreement provides for an 80%/20% split of capital improvement costs and divides operation and maintenance costs based on usage. In recent years, VID flows have been approximately 25% of the annual average production at the Water Treatment Plant and, accordingly, VID has paid 25% of operation and maintenance costs. VID’s ownership interest and capacity rights in the Water Treatment Plant do not constitute a part of the Water System.

Effect of Recycled Water Sales

Although not a part of the Water System, the City constructed a recycled water project which can currently treat up to 9 MGD of recycled water at the City’s wastewater treatment plant (known as the Hale Avenue Resource Recovery Facility, or “**HARRF**”) to various City landscape irrigation customers, including golf courses, school fields, City parks and green belts. The HARRF currently has a capacity of 18 MGD for wastewater treatment and 9 MGD for recycled water. Recycled water deliveries, which began in Fiscal Year 2007, offset higher-cost imported water purchases, as described under the caption “—Water Supply—Imported Water Supply.” Recycled water represents an additional reliable source of local water supply.

Revenues from recycled water sales do not constitute Revenues pledged to pay the Bonds. To the extent that current Water System customers purchase recycled water rather than potable water, Operation and Maintenance Costs (in particular the costs of purchasing imported water) and Revenues would be reduced.

Although recycled water sales are expected to increase in the future, the City projects that Revenues will also increase as a result of increases in connections and increases in Water System rates and charges. See the captions “—Projected Water System Connections and Production,” “—Water System Rates and Charges” and “FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage.” Improvements to the HARRF since its inception include upgrades that enable the City to produce tertiary treated water for unrestricted irrigation use, approximately 22 miles of new distribution system pipelines and the construction of a two million gallon reservoir.

Water Storage Capacity

The table below sets forth current water storage capacity for the Water System.

TABLE 1
CITY OF ESCONDIDO WATER SYSTEM
Water Storage Capacity

<i>Lake Storage</i>	<i>Volume (in millions of gallons)</i>
Wohlford	2,200 ⁽¹⁾
Dixon	<u>815</u>
Total	3,015
 <i>Reservoir Storage</i> 	
Clearwell	5.40
Reed	5.00
Lindley ⁽²⁾	2.00
A-11	8.00
A-3	1.44
Dixon Park	1.03
Parkhill No. 2	3.00
Royal Crest	0.25
Vista Verde	2.00
East Grove	1.20
Hog Back	<u>1.25</u>
Total	30.57

⁽¹⁾ Actual current capacity is approximately 2,800 acre feet (900 million gallons). The above figure represents potential capacity post-reconstruction. Lake Wohlford Dam has been declared seismically unsound and the City is not permitted to maintain maximum capacity within the lake. See the caption “—Water Supply—Local Water Supply” for a detailed discussion of the effect on the Water System of the obligation to limit the capacity of Lake Wohlford.

⁽²⁾ The City intends to demolish this reservoir and replace it with two 1.50 million gallon reservoirs (for a total storage capacity of 3.00 million gallons). The replacement reservoirs, which are expected to be completed in or about late 2022, are being financed from proceeds of the I-Bank Agreement. See the caption “THE CITY—Outstanding Parity Obligations—I-Bank Agreement.”

Source: City.

Water Supply

The sources of water for the Water System are classified as local and imported. Water supply to the Water System over the past fifteen years has averaged approximately 30% from untreated local water supplies and 70% from untreated imported supplies, although annual amounts vary significantly due to weather and other factors.

Local Water Supply. The City has access to water in Lake Henshaw, which has a surface area of approximately 1,140 acres and a capacity of approximately 55,000 acre feet when full. Lake Henshaw is located approximately 40 miles northeast of the City and was created in 1923 by the erection of the Lake Henshaw Dam. Water from Lake Henshaw is diverted into the Escondido Canal by way of the San Luis Rey River, an approximately 70 mile river which flows from Palomar Mountain in the eastern area of the County to the Pacific Ocean. From the Escondido Canal, water is delivered to Lake Wohlford for storage and conveyance to the Water Treatment Plant. Because of the elevation difference between Lake Wohlford and the Water Treatment Plant, power is generated due to excess pressure. Revenue is generated from the sale of such energy which, when taken in isolation, is equal to approximately \$20 per acre foot of falling water. The aggregate amount of such revenue is not material to the finances of the Water System. Moreover, the continued availability of such revenues is subject to numerous market, production cost, regulatory and other factors, and no assurance can be given that such revenues will continue to be generated in the future. The power generated from the conveyance of the City's local water supplies is purchased by San Diego Gas & Electric.

Lake Wohlford was created by the construction of Lake Wohlford Dam in 1895. Lake Wohlford Dam, which was later expanded in the 1920s, was deemed seismically unsound by the Federal Energy Regulatory Commission and DWR's Division of Safety of Dams in 2007. See the caption "THE CITY—Seismic Considerations—Lake Wohlford Dam." As a result of this determination, the City is required to retain no more than 2,800 acre feet (approximately 900 million gallons) of water in Lake Wohlford, which has a maximum capacity of 6,500 acre feet, in order to minimize flooding damage if the dam were to fail in the event of an earthquake.

The City has developed a plan to replace Lake Wohlford Dam with a new earth-core rockfill dam at an estimated cost of approximately \$35 million to \$50 million. Because the City plans to construct the new dam downstream from the current dam, the City does not expect the storage of water at Lake Wohlford to be affected during the construction period. However, since 2007, when the water level at Lake Wohlford was reduced because the dam was deemed seismically unsound, several dozen acres of wetland habitat have sprung up in the former lakebed. If a new dam is built and water levels at Lake Wohlford return to 2007 levels, such wetland habitat areas will be lost to inundation. Both the United States Fish and Wildlife Service ("USFWS") and the State of California Department of Fish and Wildlife ("DFW") have indicated that, if the City were to build a new dam and thereby increase the amount of water stored at Lake Wohlford to 2007 levels, the City would be required to mitigate the lost wetland habitat by purchasing wetland mitigation credits in a nearby geographic location. USFWS and DFW have not yet specified the amount of wetland mitigation credits that would be required, so the costs of acquiring such credits is unknown at this time. However, the City believes that such credits could cost several million dollars to acquire and that the City could be required to expend several hundred thousand dollars per year to maintain mitigation lands.

Although the City believes that it can fund the cost of construction of a new dam from available Water System reserves, grants and low-interest financing from DWR, the City does not believe that it currently has sufficient funds available to purchase wetland mitigation credits and maintain the purchased mitigation lands, and the City may be at risk of losing available grant funding for dam construction. The City continues to negotiate with USFWS and DFW with respect to the foregoing matters. There can be no assurance as to the substance or timing of a resolution of such matters, and the City is unable to predict when or whether Lake Wohlford Dam may be reconstructed. The City is not subject to any deadline or obligation to reconstruct Lake Wohlford Dam, nor is the City at risk of regulatory fines or orders if Lake Wohlford Dam is not reconstructed so long as the water level in Lake Wohlford does not exceed 2,800 acre feet as described above.

The risks associated with a failure of Lake Wohlford Dam are discussed under the captions "—Seismic Considerations—Lake Wohlford Dam" and "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

The City has had the use of the local water described above since the late 1800s and expects that it will continue to enjoy the benefits of such local water. Because the City also has access to imported MWD water (as discussed under the subcaption “—Imported Water Supply”), the City does not believe that the continued restrictions on water storage at Lake Wohlford to alleviate seismic concerns will have a material adverse effect on the City’s ability to serve Water System customers. For a discussion of other significant factors affecting the continued availability of local water supplies, see the caption “CERTAIN RISKS TO BONDHOLDERS—Water System Expenses—Availability of Local Water.”

Imported Water Supply. The imported water source for the City is SDCWA, of which the City is a member. SDCWA is a member agency of MWD and receives water through MWD. The imported water delivered to the City from SDCWA consists of untreated State Water Project water from northern California and untreated Colorado River water. All imported water is conveyed to Dixon Lake for storage and treated at the Water Treatment Plant before delivery to Water System customers. See the caption “—Water Treatment Plant.”

As an SDCWA member, the City is entitled but not obligated to purchase water from SDCWA when available at rates that are determined by SDCWA’s governing board. The City currently has one representative and approximately 4% of the voting entitlement on SDCWA’s governing board. SDCWA’s rates are designed to recover SDCWA’s water supply, storage and conveyance costs, as well as SDCWA’s debt service payments and certain settlement obligations. SDCWA’s rates are largely determined by SDCWA’s own costs to purchase water from MWD. The City’s practice is to recover the costs of water purchased from SDCWA through the rates that the City charges Water System customers. See the caption “—Water System Rates and Charges—General.” See the line item called “Purchased Water” in the table under the caption “FINANCIAL INFORMATION—Historical Water System Operating Results and Debt Service Coverage” for historical payments made to SDCWA for imported water purchases.

The Water System has two connections to SDCWA facilities; both are on a crossover aqueduct. A pump station at one of the connections assists in deliveries when SDCWA delivery pressures are reduced. During a prolonged drought in the late 1980s and early 1990s, MWD and SDCWA stated that reductions in deliveries due to a drought would not exceed 20% at any time. Although reduced supplies during the recent Statewide drought (as discussed under the caption “—Recent Drought”) did not exceed such threshold, there can be no assurance that reductions would not exceed this threshold during future severe drought conditions. In the event of prolonged drought conditions, supply constraints could result in restrictions on available water to be purchased by the City, with resulting impacts on Net Revenues.

See the caption “LITIGATION—SDCWA-MWD Litigation” for a description of certain litigation between SDCWA and MWD.

SDCWA and MWD face various challenges in the continued supply of imported water to the City. A description of these challenges as well as a variety of other operating information with respect to SDCWA and MWD is included in certain disclosure documents prepared by SDCWA and MWD, respectively. SDCWA and MWD each have certain publicly available documents and have entered into certain continuing disclosure agreements pursuant to which they are contractually obligated for the benefit of owners of certain of their respective outstanding obligations to file annual reports, notices of enumerated events as defined under 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 (“**Rule 15c2-12**”), and annual audited financial statements with the Municipal Securities Rulemaking Board. None of such information is incorporated into this Official Statement by reference thereto, and the City makes no representation as to the accuracy or completeness of such information. NEITHER SDCWA NOR MWD HAVE ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE CITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE ANY INFORMATION ABOUT SDCWA OR MWD TO THE CITY OR THE OWNERS OF THE BONDS.

NEITHER SDCWA NOR MWD HAVE REVIEWED THIS OFFICIAL STATEMENT AND NEITHER SDCWA NOR MWD HAVE MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO SDCWA AND MWD, RESPECTIVELY. NEITHER SDCWA NOR MWD IS CONTRACTUALLY OBLIGATED, AND NEITHER SDCWA NOR MWD HAVE UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE CITY OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

The City's recycled water system, which is described under the caption "—Effect of Recycled Water Sales," has added the capacity to produce approximately 9 MGD of new reliable local water supply (which represents approximately 2% of total water usage of 19,972 acre feet in Fiscal Year 2019) to the City's water supply. Although the recycled water system is not part of the Water System and the revenues therefrom do not constitute Revenues, the delivery of recycled water offsets demand for imported water and reduces City purchases of imported water from SDCWA, which constitute Operation and Maintenance Costs. Increased sales of recycled water can also reduce Revenues to the extent that customers purchase recycled water rather than potable water. Although recycled water sales are expected to increase in the future, the City projects that Revenues will also increase as a result of increases in connections and increases in Water System rates and charges. See the captions "—Projected Water System Connections and Production," "—Water System Rates and Charges—User Charges" and "FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage."

Seismic Considerations

General. The City is located in a seismically active region. Significant faults are located near the City, including the Elsinore and Rose Canyon Faults. There is potential for destructive ground shaking during the occurrence of a major seismic event. In addition, land along fault lines may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to both property and infrastructure within the City, including the Water System. The City has an emergency response plan that would be implemented under such circumstances.

Newer Water System facilities are designed to withstand earthquakes with minimal damage, as earthquake loads are taken into consideration in the design of project structures. The impact of lesser magnitude events is expected by the City to be temporary, localized and repairable. The Water System has never sustained major damage to its facilities or experienced extended incidences of service interruptions as a result of seismic disturbances. All facilities have been designed and constructed in compliance with the City's construction standards.

The City does not maintain earthquake insurance on Water System facilities. See the captions "—City Insurance" and "CERTAIN RISKS TO BONDHOLDERS—Natural Disasters."

Lake Wohlford Dam. As discussed in detail under the caption "—Water Supply—Local Water Supply," Lake Wohlford Dam has been determined to be seismically unsound and susceptible to failure in the event of an earthquake. Flooding from Lake Wohlford in the event of the failure of the dam could cause widespread damage in the City. The City has reduced the amount of water in Lake Wohlford to levels that are expected to withstand an earthquake in order to minimize the risk of flood losses. Although the City maintains liability insurance in connection with such losses, there can be no assurance that specific losses will be covered by such insurance or, if covered, that claims will be paid in full by the applicable insurers. Furthermore, the City does not maintain property casualty insurance in connection with damage to Lake Wohlford Dam itself. See the caption "—City Insurance." No assurance can be provided that the failure of Lake Wohlford Dam will not materially affect the delivery of water through the Water System. However, Lake Wohlford is currently used only to store untreated local water from the San Luis Rey River before its delivery to the Water Treatment Plant. Such local water source currently comprises approximately 10-30% of the City's water supply. For

these reasons, the City believes that the failure of the dam is unlikely to have a significant long-term effect on the City's ability to deliver water to retail customers in sufficient quantities to meet demand.

Recent Drought

State Orders. On January 17, 2014, the State Governor declared a drought state of emergency (the "**Declaration**") with immediate effect. The Declaration encouraged local urban water suppliers, including the City, to implement their local water shortage contingency plans; the City's plan is discussed under the subcaption "**—Water Shortage Contingency Plan.**" The Declaration also required DWR and the SWRCB to craft and enforce numerous emergency regulations that were designed to reduce water usage and increase water supplies.

For instance, a May 2015 SWRCB regulation required the City to effect a 12% reduction from its 2013 potable water usage. On May 18, 2016, the SWRCB adopted a revised regulation that gave water agencies the ability to establish their own conservation standards based on a "stress test" of supply reliability. By June 22, 2016, water agencies were required to submit self-certifications to the SWRCB demonstrating that they had sufficient supplies to withstand three additional years of severe drought. Any identified percentage gap between supplies and demands became the water agency's updated mandatory conservation target.

The City's self-certification demonstrated that it had sufficient supplies to meet its projected demands, even if the State were to have endured three more years of drought. Consequently, the City's mandatory conservation target was eliminated retroactive to June 1, 2016.

On April 7, 2017, after significant improvement in water supply conditions across California, the Governor issued Executive Order B-40-17, which rescinded mandatory conservation measures for most counties in the State (including the County).

The City is currently operating under normal supply conditions, as described below under the caption "**—Water Shortage Contingency Plan.**"

In 2018, the California Governor signed Senate Bill 606 and Assembly Bill 1668 into law. These bills relate to water conservation and drought planning and empower DWR and the SWRCB to adopt long-term standards on water use. The City is unable to predict the substance, timing or effect on the Water System of regulations implementing Senate Bill 606 and Assembly Bill 1668 or any future legislation with respect to water conservation.

Water Shortage Contingency Plan. The City's water shortage contingency plan is set forth in Article 5 of Chapter 31 of the City's Municipal Code. Under the City's plan, the City responds to a water shortage in stages as follows, in each case subject to a public hearing and the publication of the stage in a local newspaper:

- Under normal supply conditions, wasteful use of water (including washing down paved areas, allowing sprinkler irrigation to run off, operating decorative water features that do not recirculate water and irrigating landscapes between 10:00 a.m. and 6:00 p.m. or within 48 hours or measurable rainfall) is prohibited, and water leaks must be repaired within 5 days. The City is currently operating under normal supply conditions.

- Response Level One (Water Shortage Watch Condition) is intended to effect a 10% reduction in water use. The restrictions applicable to normal supply conditions are in effect and the City will increase its public awareness and education efforts with respect to wasteful water use.

- Response Level Two (Water Shortage Alert Condition) is intended to effect a 20% reduction in water use. The City may limit the frequency of landscape irrigation and landscape irrigation may not exceed

10 minutes per station unless micro-drip or similar water-efficient devices are utilized. In addition, water use from construction meters or water trucks is prohibited between 10:00 a.m. and 6:00 p.m.

- Response Level Three (Water Shortage Critical Condition) is intended to effect a 40% reduction in water use. All requirements of Response Levels One and Two are in effect, ornamental water uses are prohibited, pools and spas must be covered when not in use, washing of vehicles is prohibited except at commercial establishments and new connections to the Water System are not permitted.

- Response Level Four (Water Shortage Emergency Condition) is intended to effect the maximum possible reduction in water use. All requirements of Response Levels One through Three are in effect, and the City Council may in its discretion impose additional restrictions or adjust the City's water rates to reflect increased water costs.

The City's water shortage contingency plan authorizes the City to levy increasing fines for successive violations of the water restrictions and water rate penalties for excess water usage when restrictions are in place. In addition, the City may shut off water service after repeated willful violations.

The projected Water System operating results that are set forth under the caption "FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage" reflect the continued implementation of normal supply conditions. The City does not currently expect that the implementation of its water shortage contingency plan in the future will have a material adverse effect on its ability to pay the Series 2019 Installment Payments from Net Revenues. As discussed under the caption "—Water System Rates and Charges," the City's rate structure consists of variable and fixed rate components. Decreased water consumption is partially offset by a decrease in related variable costs, while fixed water charges largely cover the Water System's fixed Operation and Maintenance Costs. In addition, the City has covenanted to set Water System rates and charges in amounts that it expects to be sufficient to pay the Bonds from Net Revenues. See the caption "SECURITY FOR THE Bonds—Rate Covenant."

If a water shortage should arise again in the future, legal issues exist as to whether different California Water Code provisions or State regulations will be invoked to manage the allocation of water. Any curtailment pursuant to State orders could necessitate an increase in the City's Water System rates and charges. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for a discussion of certain restrictions on the City's ability to raise water rates.

Historical Water System Connections and Production

The table below sets forth the number of service connections and water production for the Water System for the last five Fiscal Years.

TABLE 2
CITY OF ESCONDIDO WATER SYSTEM
Historical Service Connections and Production

<i>Fiscal Year</i>	<i>Residential Connections</i>	<i>Commercial/Industrial Connections</i>	<i>Agricultural Connections</i>	<i>Other Connections</i> ⁽¹⁾	<i>Total Connections</i> ⁽²⁾	<i>Percentage Change in Connections</i>	<i>Water Production in Acre Feet</i> ⁽³⁾	<i>Percentage Change in Production</i>
2015	23,671	2,054	204	628	26,557	N/A%	21,879	N/A%
2016	23,692	2,061	204	629	26,586	0.11	18,962 ⁽⁴⁾	(13.33)
2017	23,731	2,071	200	645	26,647	0.23	18,919 ⁽⁴⁾	(0.23)
2018	23,899	2,078	193	659	26,829	0.68	21,791	15.18
2019	24,085	2,110	191	655	27,041	0.79	19,972 ⁽⁵⁾	(8.35)

⁽¹⁾ Other connections include churches, schools, other public agencies and institutions.

⁽²⁾ Excludes recycled water connections.

⁽³⁾ Excludes recycled water production, revenues from which do not constitute Revenues pledged to the Series 2019 Installment Payments. See the caption “—Historical Water Usage.” Includes small amounts of water (approximately 700 acre feet per year in recent years) produced at the Treatment Plant but served to customers of Rincon MWD, a neighboring water service provider, for reasons of system efficiency; Rincon MWD pays for such water by assuming the obligation to pay a portion of the City’s monthly payments to SDCWA.

⁽⁴⁾ Decreases in water production in Fiscal Years 2016 and 2017 reflect impact of conservation measures as a result of drought Declaration. See the caption “—Recent Drought.”

⁽⁵⁾ Decrease in water production in Fiscal Years 2019 reflects wet hydrological year.

Source: City.

The table below shows water sales Revenues by class of user for the last five Fiscal Years.

TABLE 3
CITY OF ESCONDIDO WATER SYSTEM
Water Sales Revenues⁽¹⁾ by Class of User
Fiscal Year 2019⁽²⁾

<i>User Class</i>	<i>Water Sales Revenues⁽³⁾</i>	<i>Service Charges⁽³⁾</i>	<i>Total Charges</i>
Single Family Residential	\$17,111,012	\$11,822,412	\$28,933,425
Commercial/Industrial	7,723,374	2,870,608	10,593,983
Agricultural	2,956,816	321,926	3,278,741
Other ⁽⁴⁾	<u>10,229,684</u>	<u>2,640,030</u>	<u>12,869,713</u>
Total	<u>\$38,020,886</u>	<u>\$17,654,976</u>	<u>\$55,675,862</u>

⁽¹⁾ Excludes other Revenues such as meter installation charges, penalties, water filtration charges and various other charges as well as connection fees, recreational fees and miscellaneous income. See the caption “FINANCIAL INFORMATION—Historical Water System Operating Results and Debt Service Coverage.”

⁽²⁾ Reflects unaudited actual results. Totals may not add due to rounding.

⁽³⁾ Amounts represent the actual amount billed and may differ from the amount collected.

⁽⁴⁾ Includes multi-family residences, churches and schools.

Source: City.

Total water sales Revenues and service charges for the four Fiscal Years prior to Fiscal Year 2019 are set forth under the caption “FINANCIAL INFORMATION—Historical Water Operating Results and Debt Service Coverage.”

Historical Water Usage

The table below summarizes water deliveries to users in the City for the five most recent Fiscal Years, including small amounts of water (approximately 300 acre feet per year in recent years) that is produced and served to Water System customers by Rincon MWD, a neighboring water service provider, for reasons of system efficiency. The City pays for such water by assuming the obligation to pay a portion of Rincon MWD’s monthly payments to SDCWA. As a result of the agreement to serve Rincon MWD customers, the City produces slightly more water than is needed to serve its own Water System customers. Such overproduction has the effect of obscuring water losses, which the City estimates resulted in aggregate actual deliveries that were approximately 1.2% lower than the numbers shown.

The table below includes recycled water deliveries. The revenues from recycled water deliveries are part of the City’s wastewater system and do not constitute Revenues pledged to payment of the Series 2019 Installment Payments. However, the delivery of recycled water offsets demand for imported water and reduces City purchases of imported water from SDCWA, which constitute Operation and Maintenance Costs. See the caption “—Water Supply—Imported Water Supply.” Increased sales of recycled water also reduce Revenues to the extent that customers purchase recycled water rather than potable water. Although recycled water sales are expected to increase in the future, the City projects that Revenues will also increase as a result of increases in connections and increases in Water System rates and charges. See the captions “—Projected Water System Connections and Production,” “—Water System Rates and Charges—User Charges” and “FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage.”

TABLE 4
CITY OF ESCONDIDO WATER SYSTEM
Historical Water Usage in Acre Feet⁽¹⁾

<i>Fiscal Year</i>	<i>Local Water⁽²⁾</i>	<i>Imported Water⁽²⁾</i>	<i>Recycled Water⁽³⁾</i>	<i>Total Water Usage⁽²⁾⁽⁴⁾</i>	<i>Percentage Change</i>
2015	626	21,253	3,715	25,594	N/A%
2016	551	18,411	3,278	22,240	(13.10)
2017	3,259 ⁽⁴⁾	15,659 ⁽⁴⁾	3,120	22,038	(0.91)
2018	777	21,014	3,316	25,107	13.93
2019	1,814	18,158	2,270	22,242	(11.41)

⁽¹⁾ The numbers shown do not reflect water losses, which the City estimates resulted in aggregate actual deliveries that were approximately 1.2% lower than the numbers shown. Such losses are imputed rather than actual because of the City's production exchanges with Rincon MWD, as described in the first paragraph under this caption and in Footnote (3) to the table under the caption "—Historical Water System Connections and Production."

⁽²⁾ Variations in local water usage and imported water usage from year to year reflect City efforts to draw upon less costly available local water supplies during dry hydrological years (including the recent Statewide drought described under the caption "—Recent Drought") and to conserve available local water supplies during wet hydrological years when imported water is more affordable. Variations in total water usage reflect lower water usage overall during wet hydrological years.

⁽³⁾ Although the recycled water system is not part of the Water System and the revenues therefrom do not constitute Revenues, the delivery of recycled water offsets demand for imported water and reduces City purchases of imported water from SDCWA, which constitute Operation and Maintenance Costs. See the caption "—Water Supply—Imported Water Supply."

⁽⁴⁾ Decreases in water usage in Fiscal Years 2016 and 2017 reflect impact of conservation measures as a result of drought Declaration. See the caption "—Recent Drought." Decrease in Fiscal Year 2019 reflects wet hydrological year.

Source: City.

Largest Water System Customers

The table below shows the largest customers of the Water System for Fiscal Year 2019, as determined by water usage.

TABLE 5
CITY OF ESCONDIDO WATER SYSTEM
Ten Largest Water System Customers by Water Usage
Fiscal Year 2019

<i>User</i> ⁽¹⁾	<i>Type of Business</i>	<i>Water Use (1,000 Gallons)</i> ⁽²⁾	<i>Revenues</i> ⁽³⁾	<i>Percentage of Annual Revenues</i>
E C & B J Malone	Agriculture	193,976	\$ 523,735	1.38%
Zoological Society of San Diego	Irrigation	134,250	1,059,466	2.79
Bar-B Ranch	Agriculture	89,740	242,298	0.64
Wylie FLP	Agriculture	78,023	210,662	0.55
Grangetto Ranches Inc	Agriculture	66,926	180,700	0.48
A-1 Sunshine Farms LLC	Agriculture	60,728	246,531	0.65
Beacon Sun Ranch	Agriculture	44,760	120,852	0.32
City of Escondido	Irrigation	44,360	348,641	0.92
Wohlford Land Company LLC	Agriculture	40,602	109,625	0.29
Tradeland Properties LLC	Agriculture	<u>35,792</u>	<u>96,638</u>	<u>0.25</u>
Total		789,157	\$3,139,149	8.26%

⁽¹⁾ Certain of above customers also purchase recycled water. Recycled water purchases and revenues are part of the City's wastewater system and are not shown in the above table. See the caption "—Effect of Recycled Water Sales."

⁽²⁾ Certain agricultural customers pay discounted SDCWA imported water rates in exchange for exposure to supply reductions in the event of water shortages. In addition, certain agricultural customers pay discounted rates in exchange for a commitment to purchase recycled water when available in the future. For the foregoing reasons, water is often sold at differing rates and the amount of water purchased by a customer is not directly correlated to the water sales Revenues generated from such customer. See the caption "—Water System Rates and Charges—User Charges."

⁽³⁾ Rounded to the nearest dollar. Reflects unaudited actual results. Subject to change upon completion of billing cycle and final accounting for such Fiscal Year. See the caption "—Water System Collection Procedures." Does not include monthly meter charges and certain other Revenues such as penalties.

Source: City.

These customers accounted for approximately 8.26% of total Water System sales revenues (excluding service charges) of \$38,020,886 (based on unaudited actual results) in Fiscal Year 2019.

Water System Rates and Charges

General. The Water System's rates and charges are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City, however, is required to comply with the notice, hearing and majority protest provisions of Article XIID of the State Constitution, which is popularly known as Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218" for further information with respect to Proposition 218.

The City's Utilities Department annually determines the adequacy of the charge structure for water service in the service area after full consideration of expected operations, maintenance, capital costs and capital repayment obligations of the Water System. The City Council currently sets water rates and charges at a level that it determines is sufficient to pay all Operation and Maintenance Costs of water production and water purchases (including the cost of imported water purchased from SDCWA as discussed under the caption "—

Water Supply—Imported Water Supply”), to recover operating expenses for the Water System, to pay debt service payments and to maintain appropriate reserves for the Water System. Current charges include a fixed service charge based on meter size and a commodity charge based on usage.

In 2017, after a public hearing as required under Proposition 218, the City Council adopted a comprehensive rate plan for the Water System (the “**Rate Plan**”), including Water System rate increases effective on March 1 of each year from 2017 through 2021. The Rate Plan remains in place as of the date hereof. There is no assurance that the City Council will not repeal or modify such rate increases in the future or that the City’s ratepayers will not approve an initiative to repeal or modify any increase in water service rates and charges approved by the City Council. However, the City is subject to certain covenants with respect to the Bonds which require the City to set Water System rates and charges in amounts that it expects to be sufficient to pay the Bonds from Net Revenues. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

User Charges. The City adopts water rates and water service charges for the Water System by City Council action. The current water rate structure consists of a fixed monthly service charge that varies by meter size, a tiered commodity rate for residential customers and a uniform commodity rate for other customers.

The table below summarizes the monthly water rates per thousand gallons charged by the Water System for all customer types effective March 1, 2019, and approved increases thereafter.

**TABLE 6
CITY OF ESCONDIDO WATER SYSTEM
Water Rates**

<i>Customer Type</i>	<i>Water Use (1,000 gallon units used per month)</i>	<i>Current Rate</i>	<i>Rate as of March 1, 2020</i>	<i>Rate as of March 1, 2021</i>	
Single Family Residential					
	Tier 1	0 to 7	\$ 6.22	\$ 6.57	\$ 6.94
	Tier 2	7 to 15	8.26	8.72	9.20
	Tier 3	15 +	9.47	10.00	10.55
Residential/Agricultural Use					
	Tier 1	0 to 7	6.07	6.41	6.77
	Tier 2	7 +	8.47	8.94	9.44
Multi-Family Residential					
	Tier 1	0 to 5	6.15	6.49	6.85
	Tier 2	5 to 7	7.91	8.35	8.81
	Tier 3	7 +	8.82	9.31	9.83
Commercial, Industrial and School					
Irrigation/Institutional/Landscape District					
San Diego Safari Park					
Special Unfiltered					
Agricultural Use					
Recycled Water (1,000 gallons per month)					
Recycled Water – Agricultural Use (1,000 gallons per month)					

Source: City.

The table below summarizes the City's monthly water availability charge by meter size effective March 1, 2019, and approved increases thereafter.

TABLE 7
CITY OF ESCONDIDO WATER SYSTEM
Monthly Water Availability Charge

<i>Pipeline Diameter or Meter Size</i>	<i>Current Rate</i>	<i>Charge as of March 1, 2020</i>	<i>Charge as of March 1, 2021</i>
5/8"	\$ 37.09	\$ 39.13	\$ 41.29
3/4"	37.09	39.13	41.29
1"	58.11	61.31	64.69
1½"	110.24	116.31	122.71
2"	173.02	182.54	192.58
3"	372.07	392.54	414.13
4"	665.00	701.58	740.17
6"	1,470.92	1,551.83	1,637.19
8"	2,517.34	2,655.80	2,801.87
3/4" x 3"	372.07	392.54	414.13
1" x 4"	665.00	701.58	740.17
1½" x 6"	1,470.92	1,551.83	1,637.19
3/4" x 3" x 6"	1,470.92	1,551.83	1,637.19
1" x 4" x 8"	2,517.34	2,655.80	2,801.87
2" x 6"	1,470.92	1,551.83	1,637.19
2" x 8"	2,517.34	2,655.80	2,801.87
Detector Check	60.20	63.51	67.01

Source: City.

Connection Charges. A water connection right must be purchased from the City by anyone who wishes to connect to the Water System. The connection fee is currently \$4,690 for a single-family unit.

In 1983, the City pre-sold 16,413 water connection rights to finance an expansion of the Water Treatment Plant. 2,822.80 pre-sold water connection rights are currently outstanding. Such rights can be redeemed for a connection at any time. If the holder of a pre-sold water connection right does not wish to use it to connect to the Water System, such right can be surrendered to the City in exchange for cash payable by the City to the rightholder, where it will be held until another party purchases such right. The current value of a previously sold water connection right is \$3,230.

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 water connection right exercises its right to connect to the Water System, the City treats the value of the exercised right as revenue in the amount of \$3,230 per right, even though no current cash is received. If instead, a water connection right is purchased, the City applies a portion of the purchase price to buy back connection rights from owners who have offered them for resale, if any, at the price of \$3,230, and holds the balance for future expansion of the Water System. These credits relieve a liability of the Water 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 13 and 14 indicate the amount of net connection fees received, or projected 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 June 30, 2019, no connection rights were held by the City for resale. 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 \$3,230 per connection right. In Fiscal Year 2019, the City recorded revenue of \$451,312 (based on unaudited actual numbers). However, the net cash to the Water System generated from these connection charges was \$304,961 after deducting amounts paid to repurchase rights valued at \$3,230 per connection right.

Pass-Through Charges. MWD assesses a fixed fee on all MWD constituent agencies, including SDCWA, called a Readiness-to-Serve Charge (the “**RTS Charge**”) based on historic imported water purchases. SDCWA has chosen to recover the RTS Charge from wholesale customers such as the City and the City has in turn chosen to recover the RTS Charge from its retail water customers. In addition to the RTS Charge, SDCWA charges its wholesale customers, including the City, an Infrastructure Access Charge. The City has in turn chosen to recover the Infrastructure Access Charge from its retail water customers. Current RTS Charges and Infrastructure Access Charges are set forth in the table below:

**TABLE 8
CITY OF ESCONDIDO WATER SYSTEM
Pass-Through Charges**

<i>Pipeline Diameter or Meter Size</i>	<i>RTS Charge</i>	<i>Infrastructure Access Charge</i>
5/8”	\$ 1.93	\$ 3.01
3/4”	1.93	3.01
1”	3.08	4.82
1½”	5.78	9.03
2”	10.02	15.65
3”	18.50	28.90
4”	31.59	49.36
6”	57.79	90.30
8”	100.18	156.52
3/4” x 3”	19.84	49.39
1” x 4”	31.26	75.28
1 ½” x 6”	62.53	150.17
3/4” x 3” x 6”	76.83	150.17
1” x 4” x 8”	122.45	241.46
2” x 6”	68.81	150.17
2” x 8”	95.53	241.46

Source: City.

The RTS Charge is subject to annual adjustment at the discretion of MWD on each July 1 and the Infrastructure Access Charge is subject to annual adjustment at the discretion of MWD on each January 1.

Comparison to Nearby Service Providers. The table below sets forth a comparison of the City’s typical monthly water bill (reflecting usage of approximately 10,000 gallons per month) for a single family residential user to those of certain nearby water purveyors as of June 30, 2019.

**TABLE 9
CITY OF ESCONDIDO WATER SYSTEM
Comparative Rates**

<i>Agencies</i>	<i>Residential Meter Monthly Service Charge</i>	<i>Rate per 1,000 gallons</i>	<i>Total Monthly Rate</i>
Padre Dam Municipal Water District	\$37.07	\$9.42	\$131.27
Rincon del Diablo Municipal Water District	35.88	8.23	118.18
Ramona Municipal Water District	36.12	8.05	116.62
City of San Diego	26.30	7.96	105.90
Valley Center Municipal Water District	39.93	6.49	104.83
City of Escondido Tier 1 (First 7,000 gallons) and 2 (7,001-10,000 gallons)	39.87	6.47	104.57
Vista Irrigation District	40.97	6.07	101.67
City of Poway	21.14	7.17	92.84

⁽¹⁾ Assumes usage of 10,000 gallons per month.
Source: City.

Water System Collection Procedures

The City’s water accounts currently are maintained through the water accounting section of the Finance Department. Water 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 water service.

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.

In September 2018, the State Governor signed Senate Bill 998 (“**SB 998**”), a bill which restricts the discontinuation of water service to delinquent customers effective February 1, 2020. SB 998 includes the following provisions: (i) a requirement to make discontinuation policies available in multiple languages; (ii) a prohibition on discontinuing service until payment is 60 days late; (iii) an obligation to contact delinquent customers by telephone and provide appeal, extension and alternative payment information; and (iv) an obligation to contact tenants when service is at risk of discontinuation due to landlord nonpayment. Water service may not be discontinued if a doctor certifies that there would be a serious medical threat to a delinquent resident who is unable to pay but willing to make alternative payment arrangements.

Certain provisions of SB 998 conflict with the City’s current discontinuation policies. The City is in the process of drafting an amended shutoff policy and Municipal Code provision relating to water shutoffs in order to comply with the new requirements. Staff anticipates that City Council will consider approval of such changes by early 2020. The City does not anticipate that any changes to the City’s discontinuation policies will have a material effect on the availability of Net Revenues to pay the Series 2019 Installment Payments.

Future Water System Capital Improvements

The City projects total capital improvements to the Water System of approximately \$19.3 million over the next five years, including the installation of advanced metering infrastructure, water pipeline replacements and the San Pasqual Undergrounding Project on the Escondido Canal. See the caption “—Water Supply—Local Water Supply.” The San Pasqual Undergrounding Project will replace a portion of the above-ground Escondido Canal on the San Pasqual Indian Reservation with a below-ground pipeline. Completion of the project by VID and the City is a requirement of the implementation agreement related to the Settlement Act, as described under the caption “CERTAIN RISKS TO BONDHOLDERS—System Expenses—Availability of Local Water.” The estimated total construction cost is \$30 million, to be shared evenly between VID and the City. The City has already budgeted approximately \$2 million for construction of the San Pasqual Undergrounding Project.

The above-described capital improvements are expected to be financed by a combination of grants, Revenues remaining after payment of Water System debt and (for the San Pasqual Undergrounding Project in particular) the proceeds of additional Contracts or Parity Bonds in the estimated principal amount of up to \$10 million entered into in or about Fiscal Year 2022 (the “**2022 Bonds**”).

See the caption “—Water Supply—Local Water Supply” for a discussion of the City’s plans to rebuild Lake Wohlford Dam and its financing plan with respect thereto. The City does not currently expect to complete such project in the next five years and the costs of such project are not reflected in the above discussion. In the event that the City is able to commence the Lake Wohlford Dam rebuilding project in the next five years, the above-described costs could increase.

Projected Water System Connections and Production

Projected service connections and water production for the Water System for the current and next four Fiscal Years are set forth in the table below.

**TABLE 10
CITY OF ESCONDIDO WATER SYSTEM
Projected Service Connections and Production**

<i>Fiscal Year</i>	<i>Residential Connections</i>	<i>Commercial/Industrial Connections</i>	<i>Other Connections⁽¹⁾</i>	<i>Agricultural Connections</i>	<i>Total Connections</i>	<i>Percentage Change in Connections</i>	<i>Water Production in Acre Feet⁽²⁾</i>	<i>Percentage Change in Production</i>
2020	24,127	2,121	642	191	27,081	0.15%	20,481	2.55%
2021	24,196	2,128	649	191	27,164	0.31	20,661	0.88
2022	24,216	2,137	658	172	27,183	0.07	20,994	1.61
2023	24,404	2,144	669	168	27,385	0.74	19,401	(7.58)
2024	24,516	2,152	665	166	27,499	0.42	18,134	(6.53)

⁽¹⁾ Other connections include schools, other public agencies and institutions.

⁽²⁾ Excludes projected recycled water production, revenues from which do not constitute Revenues pledged to the Series 2019 Installment Payments. See the caption “—Projected Water Usage.” Decreases in Fiscal Years 2023 and 2024 reflect projected increases in sales of recycled water as well as expectations of two wet hydrological years during each five year period.

Source: City.

See the caption “—Growth Management” for further information with respect to projected increases in Water System service connections.

Projected Water Usage

Projected water deliveries for the current and next four Fiscal Years are set forth in the table below, including recycled water deliveries. The revenues from recycled water deliveries are part of the City’s wastewater system and do not constitute Revenues pledged to payment of the Series 2019 Installment Payments. However, the delivery of recycled water offsets demand for imported water and reduces City purchases of imported water from SDCWA, which constitute Operation and Maintenance Costs. See the caption “—Water Supply—Imported Water Supply.” Increased sales of recycled water also reduce Revenues to the extent that customers purchase recycled water rather than potable water. Although recycled water sales are expected to increase in the future, the City projects that Revenues will also increase as a result of increases in connections and increases in Water System rates and charges. See the captions “—Projected Water System Connections and Production,” “—Water System Rates and Charges—User Charges” and “FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage.”

TABLE 11
CITY OF ESCONDIDO WATER SYSTEM
Projected Water Usage in Acre Feet

<i>Fiscal Year</i>	<i>Local Water</i>	<i>Imported Water</i>	<i>Recycled Water</i> ⁽¹⁾	<i>Total Water Usage</i> ⁽²⁾	<i>Percentage Change</i>
2020	2,600	17,479	3,328	23,407	5.24%
2021	2,000	18,256	3,287	23,543	0.58
2022	2,000	18,582	3,120	23,702	0.68
2023	2,000	17,021	4,816	23,837	0.57
2024	2,000	15,778	6,316	24,094	1.08

⁽¹⁾ Increases in recycled water production reflect projected increases in sales to agricultural users in the eastern portion of the City’s service area. Although the recycled water system is not part of the Water System and the revenues therefrom do not constitute Revenues, the delivery of recycled water offsets demand for imported water and reduces City purchases of imported water from SDCWA, which constitute Operation and Maintenance Costs. See the caption “—Water Supply—Imported Water Supply.”

⁽²⁾ Assumes normal hydrological conditions.

Source: City.

Projected water sales Revenues and service charges for the current and next four Fiscal Years based on the projected water usage set forth in the table above are set forth under the caption “FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage.”

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 and does not anticipate increases in Revenues as a result of significant additional development. 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 Water System Connections and Production” for the City’s current projections of increases in service connections in the current and next four Fiscal Years.

The City has covenanted to set Water System rates and charges in amounts that it expects to be sufficient to pay the Bonds from Net Revenues. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

FINANCIAL INFORMATION

Financial Statements

A copy of the most recent audited financial statements (the “**Financial Statements**”) of the City prepared by the City’s accountant, The Pun Group, LLP, San Diego, California (the “**Auditor**”) is set forth in Appendix A. The Auditor’s letter dated December 28, 2018 is set forth therein. The Financial Statements should be read in their entirety. The Auditor has not reviewed or audited this Official Statement.

The summary operating results that are contained under the caption “—Historical Water System Operating Results and Debt Service Coverage” are derived from the Financial Statements and audited financial statements for prior Fiscal Years (excluding certain non-cash items and after certain other adjustments), and are qualified in their entirety by reference to such statements, including the notes thereto.

The City accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to public entities (“**GAAP**”). In certain cases, GAAP requires or permits moneys that are collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses that are paid or incurred in one Fiscal Year to be recognized as expenses in a subsequent Fiscal Year. See Note 1 to the Financial Statements that are set forth in Appendix A. Except as otherwise expressly noted herein, all financial information that has been derived from the City’s audited financial statements reflects the application of GAAP.

The Water Enterprise Fund of the City is accounted for as a proprietary fund type (enterprise fund). In governmental accounting, enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In the Water Enterprise Fund, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Available Cash

As of September 30, 2019, the Water System had approximately \$28.2 million in available cash reserves, including approximately \$13.6 million in reserves that are currently allocated to future capital projects but can be reallocated to other purposes in the City’s discretion. This amount is equivalent to approximately 175 days of Operation and Maintenance Costs.

Historical Water System Operating Results and Debt Service Coverage

The table below is a summary of operating results of the Water System for the last five Fiscal Years. The results have been derived from unaudited actual results for Fiscal Year 2019, the Financial Statements and prior audited financial statements of the City but exclude certain non-cash items which are not included as Revenues or Operation and Maintenance Costs and include certain other adjustments. The table has not been reviewed or audited by the City’s Auditor.

TABLE 12
CITY OF ESCONDIDO WATER SYSTEM
Historical Operating Results (Fiscal Year Ended June 30)

	2015	2016 ⁽⁹⁾	2017	2018	2019 ⁽¹⁰⁾
Revenues					
Charges for Services ⁽¹⁾	\$53,511,317	\$49,105,084	\$52,936,039	\$59,696,574	\$57,044,241
Connection Fees ⁽²⁾	280,340	583,790	1,937,953	1,854,548	451,312
Investment Income ⁽³⁾	264,981	264,337	55,053	(50,968)	1,079,560
Rents and Concessions	884,026	963,147	1,118,442	1,160,002	1,304,431
Other Revenues ⁽⁴⁾	<u>182,070</u>	<u>186,241</u>	<u>64,985</u>	<u>130,079</u>	<u>341,736</u>
Total Revenues	\$55,122,734	\$51,102,599	\$56,112,472	\$62,790,235	\$60,221,280
Operation and Maintenance Costs					
Operation and Maintenance ⁽⁵⁾	\$21,989,842	\$22,413,985	\$25,740,031	\$26,425,076	\$28,326,991
Purchased Water ⁽⁶⁾	<u>23,183,794</u>	<u>21,493,055</u>	<u>21,058,343</u>	<u>27,511,621</u>	<u>24,017,147</u>
Total Operation and Maintenance Costs	\$45,173,636	\$43,907,040	\$46,798,374	\$53,936,697	\$52,344,138
Net Revenues	\$ 9,949,098	\$ 7,195,559	\$ 9,314,098	\$ 8,853,538	\$ 7,877,142
Debt Service					
2012 IPA	\$ 1,895,156	\$ 1,902,981	\$ 1,890,556	\$ 1,890,156	\$ 1,893,856
Alexander Area Phase II State Loan	179,633	179,633	179,633	164,056	180,690
2007 IPA ⁽⁷⁾	1,809,850	1,802,550	1,809,350	1,810,050	1,804,850
2002 State Loan	<u>130,919</u>	<u>130,919</u>	<u>130,919</u>	<u>147,111</u>	<u>130,919</u>
Total Debt Service	\$ 4,015,558	\$ 4,016,083	\$ 4,010,458	\$ 4,011,373	\$ 4,010,315
Debt Service Coverage⁽⁸⁾	2.48	1.79	2.32	2.21	1.96
Revenues Remaining After Payment of Debt Service	\$ 5,933,540	\$ 3,179,476	\$ 5,303,640	\$ 4,842,165	\$ 3,866,827

⁽¹⁾ Includes meter installation charges, penalties, water filtration charges and certain other miscellaneous revenues which are not included as Other Revenues.

⁽²⁾ See the caption "THE WATER SYSTEM—Water System Rates and Charges—Connection Charges" for a discussion of these Revenues; net cash received for such connection fees was \$273,880, \$577,330, \$1,931,493, \$1,809,328 and \$304,961 for Fiscal Years 2015, 2016, 2017, 2018 and 2019, respectively. Increases in connection fee revenues in Fiscal Years 2017 and 2018 reflect high levels of development in such Fiscal Years.

⁽³⁾ Investment loss in Fiscal Year 2018 reflects losses incurred in City investment portfolio.

⁽⁴⁾ Includes rental income and other miscellaneous revenues.

⁽⁵⁾ Operation and Maintenance Costs do not include GASB 68 accounting entries, which are non-cash items. There is not a linear correlative relationship between GASB 68 accounting entries and the City's annual pension contributions because GASB 68 accounting entries are based on assumptions by CalPERS which vary annually. However, if coverage were adjusted to reflect these entries, coverage would have been 2.53, 1.97, 2.39, 1.83 and 1.71 for Fiscal Years 2015, 2016, 2017, 2018, and 2019, respectively. See the caption "—Employee Benefits—Pension Obligations" for a description of GASB 68.

⁽⁶⁾ Decreases in purchased water expense for Fiscal Years 2016 and 2017 reflect impact of conservation measures as a result of drought Declaration. See the caption "THE WATER SYSTEM—Recent Drought."

⁽⁷⁾ These obligations are expected to be refunded from proceeds of the Bonds. See the caption "REFUNDING PLAN."

⁽⁸⁾ If coverage were adjusted to reflect only the cash received for connection fees, as described in footnote 2, coverage would have been 2.48, 1.79, 2.32, 2.20 and 1.93 for Fiscal Years 2015, 2016, 2017, 2018 and 2019, respectively.

⁽⁹⁾ Decreases in Revenues in Fiscal Year 2016 reflect impact of conservation measures as a result of drought Declaration prior to increases in Water System Rates and Charges under the Rate Plan. See the caption "THE WATER SYSTEM—Recent Drought" and "THE WATER SYSTEM—Water System Rates and Charges—General."

⁽¹⁰⁾ Reflects unaudited actual Fiscal Year 2019 results. Decreases in Revenues and purchased water costs reflects wet hydrological year. See Footnote (2) to Table 4 under the caption "THE WATER SYSTEM—Historical Water Usage."

Source: City.

Projected Water System Operating Results and Debt Service Coverage

The estimated projected operating results for the Water System for the current and next four Fiscal Years are set forth in the table 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, including that the City's water shortage contingency plan (as described under the caption "THE WATER SYSTEM—Recent Drought—Water Shortage Contingency Plan") will not be in effect and assumptions set forth in the footnotes to the table set forth below. All of such assumptions are material to 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. See the caption "CERTAIN RISKS TO BONDHOLDERS—Accuracy of Assumptions."

TABLE 13
CITY OF ESCONDIDO WATER SYSTEM
Projected Operating Results (Fiscal Year Ending June 30)

	2020 ⁽¹⁾	2021	2022	2023	2024
Revenues					
Charges for Services ⁽²⁾	\$63,056,366	\$66,166,379	\$69,151,288	\$72,359,742	\$75,727,272
Connection Fees ⁽³⁾	455,825	460,383	464,987	469,637	474,333
Investment Income ⁽⁴⁾	299,403	270,757	188,672	128,008	31,377
Rents and Concessions ⁽⁵⁾	1,317,476	1,330,651	1,343,957	1,357,397	1,370,971
Other Revenues ⁽⁶⁾	<u>103,171</u>	<u>104,203</u>	<u>105,245</u>	<u>106,298</u>	<u>107,361</u>
Total Revenues	\$65,232,242	\$68,332,373	\$71,254,150	\$74,421,082	\$77,711,314
Operation and Maintenance Costs					
Operation and Maintenance ⁽⁷⁾	\$31,893,907	\$32,943,446	\$34,035,421	\$35,229,174	\$36,468,202
Purchased Water ⁽⁸⁾	<u>25,374,635</u>	<u>25,292,783</u>	<u>25,235,953</u>	<u>25,359,713</u>	<u>25,489,661</u>
Total Operation and Maintenance Costs	\$57,268,542	\$58,236,228	\$59,271,374	\$60,588,887	\$61,957,863
Net Revenues	\$ 7,963,699	\$10,096,145	\$11,982,776	\$13,832,194	\$15,753,450
Debt Service⁽⁹⁾					
2022 Bonds ⁽¹⁰⁾	\$ -	\$ -	\$ -	\$ 575,000	\$ 575,000
2019A Bonds	247,013	1,507,350	1,511,550	1,508,700	1,511,325
2019B Bonds	243,071	1,698,913	1,694,226	1,698,713	1,697,037
I-Bank Agreement	285,000	821,744	820,600	819,421	818,207
2012 IPA ⁽¹¹⁾	1,233,978	-	-	-	-
Alexander Area Phase II State Loan	179,633	179,633	179,633	179,633	179,633
2007 IPA ⁽¹¹⁾	1,246,025	-	-	-	-
2002 State Loan	<u>130,919</u>	<u>130,919</u>	<u>130,919</u>	<u>130,919</u>	<u>130,919</u>
Total Debt Service	\$ 3,565,639	\$ 4,338,559	\$ 4,336,928	\$ 4,912,386	\$ 4,912,121
Debt Service Coverage	2.23	2.33	2.76	2.82	3.21
Revenues Remaining After Payment of Debt Service	\$ 4,398,060	\$ 5,757,586	\$ 7,645,848	\$ 8,919,808	\$10,841,329

(1) Reflects budgeted Fiscal Year 2020 amounts with certain adjustments.

(2) Includes meter installation charges, penalties, water filtration charges and certain other miscellaneous revenues which are not included as Other Revenues. Reflects rate increases approved by the City Council through March 1, 2021 and projected rate increases averaging approximately 5% per annum thereafter which have not yet been adopted. See the caption "THE WATER SYSTEM—Water System Rates and Charges—User Charges." All rate increases are subject to City Council approval and the notice, hearing and protest provisions of Proposition 218, and there can be no assurance that rate increases which are projected to take effect in Fiscal Years 2022, 2023 and 2024 will be approved. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

(3) Reflects revenues from projected connections set forth under the caption "THE WATER SYSTEM—Projected Water System Connections and Production."

(4) Reflects earnings on Water System reserves as projected by the City.

(5) Reflects Fiscal Year 2020 budgeted amount and projected increases of approximately 1% per annum thereafter.

(6) Includes rental income and other miscellaneous revenues. Reflects Fiscal Year 2020 budgeted amount and projected increases of approximately 1% per annum thereafter.

(7) Reflects Fiscal Year 2020 budgeted amount and projected increases of approximately 3.5% per annum thereafter.

(8) Decreases in Fiscal Years 2021 and 2022 reflect projected increases in recycled water purchases. Projected to increase approximately 0.5% per annum thereafter.

(9) Reflects scheduled debt service, with the exception of the projected debt service on the 2022 Bonds, which is estimated, as such obligations have not yet been issued. See the caption "THE WATER SYSTEM—Outstanding Parity Obligations."

(10) These obligations are described under the caption "THE WATER SYSTEM—Future Water System Capital Improvements."

(11) These obligations are expected to be refunded from proceeds of the Bonds. See the caption "REFUNDING PLAN."

Source: City.

Employee Benefits

Pension Obligations. Accounting and financial reporting by state and local government employers for defined benefit pension plans is governed by Governmental Accounting Standards Board (“GASB”) Statement No. 68 (“GASB 68”). GASB 68 governs the accounting treatment of defined benefit pension plans, including how expenses and liabilities are calculated and reported by state and local government employers in their financial statements. GASB 68 includes the following components: (i) unfunded pension liabilities are included on the employer’s balance sheet; (ii) pension expense incorporates rapid recognition of actuarial experience and investment returns and is not based on the employer’s actual contribution amounts; (iii) lower actuarial discount rates are required to be used for underfunded plans in certain cases for purposes of the financial statements; (iv) closed amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements; and (v) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. GASB 68 affects the City’s accounting and reporting requirements, but it does not change the City’s pension plan funding obligations.

The City participates in a Miscellaneous plan to fund pension benefits for employees who operate the Water System. The City’s Miscellaneous plan is administered by the California Public Employees Retirement System (“CalPERS”). CalPERS administers an agent multiple-employer public employee defined benefit pension plan for all of the City’s full-time and certain part-time employees. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries and acts as a common investment and administrative agent for participating public entities within the State, including the City. CalPERS plan benefit provisions and all other requirements are established by State statute and the City Council.

City employees are subject to different benefit levels based on their hire date. Current benefit provisions for City employees are set forth below.

CITY OF ESCONDIDO CalPERS Miscellaneous Pension Plan – Summary of Benefit Provisions

	<i>Employees Hired Before December 23, 2012</i>	<i>Employees Hired On or After December 23, 2012 (Prior CalPERS Members)</i>	<i>Employees Hired On or After January 1, 2013 (Not Prior CalPERS Members)</i>
Benefit Formula	3.0% @ age 60	2.0% @ age 60	2.0% @ age 62
Benefit Vesting	5 years of service	5 years of service	5 years of service
Benefit Payments	Monthly for life	Monthly for life	Monthly for life
Minimum Retirement Age	50	50	52
Monthly Benefits as % of Eligible Compensation	2.0% - 3.0%	1.092% - 2.418%	1.0% - 2.5%
Employee Normal Cost	8.0% ⁽¹⁾	7.0% ⁽²⁾	6.25% ⁽³⁾
Employer Normal Cost Rate ⁽⁴⁾	10.520%	10.520%	10.520%

⁽¹⁾ Employees who were hired before December 23, 2012 are required to make the full employee contribution.

⁽²⁾ Employees who were hired on and after December 23, 2012 who were previously CalPERS members are required to make the full employee contribution.

⁽³⁾ Employees who were hired on or after January 1, 2013 who were not previously CalPERS members are required to make the full employee contribution.

⁽⁴⁾ Effective August 12, 2018, all M&O Unit employees hired before January 1, 2013 participated in additional cost sharing of 1% of the employer normal cost rate pursuant to the current memorandum of understanding with the M&O Unit dated May 16, 2018. See the caption “THE CITY—Employees.” The cost sharing percentage increased from 1% to 2% effective July 1, 2019 and will increase from 2% to 3% effective July 1, 2020.

Source: City.

City employees who were hired on and after January 1, 2013 and who were not previously CalPERS members receive benefits based on a 2.0% at age 62 formula; such employees are required to make the full amount of required employee contributions themselves under the California Public Employees' Pension Reform Act of 2013 ("AB 340"), which was signed by the State Governor on September 12, 2012. AB 340 established a new pension tier: the 2.0% at age 62 formula, with a maximum benefit formula of 2.5% at age 67. Benefits for such participants are calculated on the highest average annual compensation over a consecutive 36 month period. Employees are required to pay at least 50% of the total normal cost rate. AB 340 also caps pensionable income for 2019 as noted below. Amounts are set annually, subject to Consumer Price Index increases, and retroactive benefits increases are prohibited, as are contribution holidays and purchases of additional non-qualified service credit.

CITY OF ESCONDIDO
Pensionable Income Caps for Calendar Year 2019 (AB 340 and Non-AB 340 Employees)

	<i>Employees Hired Before January 1, 2013 (Non-AB 340 Employees)</i>	<i>Employees Hired After January 1, 2013 (AB 340 Employees)</i>
Maximum Pensionable Income	\$280,000	\$149,016
Maximum Pensionable Income if also Participating in Social Security	N/A	\$124,180

Source: City.

CalPERS estimates savings for local agency plans as a result of AB 340 of approximately \$1.653 billion to \$2.355 billion over the 30-year period after its adoption, primarily due 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.

Additional employee contributions, limits on pensionable compensation and higher retirement ages for new members as a result of the passage of AB 340 are expected to reduce the City's unfunded pension liability and potentially reduce City contribution levels in the long term.

The City is also required to contribute the actuarially determined remaining amounts necessary to fund benefits for its members. Required employer normal cost rates for Fiscal Year 2019 were 10.520% for all benefit levels, and the required employer payment of the unfunded accrued liability was \$9,607,958. Required employer normal cost rates for Fiscal Year 2020 are 11.283% for all benefit levels, and the required employer payment of the unfunded accrued liability is \$11,026,653.

Employer contribution rates for all public employers are determined on an annual basis by the CalPERS actuary and are effective on the July 1 following notice of a change in the rate. Total plan contributions are determined through the CalPERS annual actuarial valuation process. The total minimum required employer contribution is the sum of the plan's employer normal cost rate (expressed as a percentage of payroll) plus the employer unfunded accrued liability contribution amount (billed monthly). The normal cost rate is the annual cost of service accrual for the upcoming Fiscal Year of active employees.

The City's Miscellaneous plan had a total net pension liability of approximately \$134,635,360 for the Fiscal Year ended June 30, 2018 and approximately \$129,410,481 for the Fiscal Year ended June 30, 2019. The net pension liability is the difference between the total pension liability and the fair market value of pension assets. The City's total pension assets include funds that are held by CalPERS, and its net pension asset or liability is based on such amounts.

For Fiscal Years 2018 and 2019, the City incurred Miscellaneous plan pension expenses of \$374,893 and \$432,948, respectively. The Miscellaneous plan contributions for Fiscal Years 2018 and 2019 were

\$11,179,205 and \$11,929,230, respectively. The City currently expects its annual required contribution for the Miscellaneous plan in Fiscal Year 2020 to be approximately \$13,960,590. The share of such contributions which is attributable to the Water System is determined based on the proportion of Water Fund payroll expenditures to payroll expenditures for all City employees who participate in the Miscellaneous plan. Such share was 14%, 15%, 16%, 17% and 17% in Fiscal Years 2015, 2016, 2017, 2018 and 2019, respectively, and is expected to be approximately 16% in Fiscal Year 2020.

In Fiscal Year 2018, the City established the Section 115 Trust under Section 115 of the Internal Revenue Code. The purpose of the Section 115 Trust is to accumulate assets that will be applied to reduce the City’s net pension liability, which assets can be invested by the City or a professional fund management team selected and monitored by the City. Pursuant to GASB Implementation Guide No. 2017-1 relating to accounting and reporting of net pension liability, assets held in the Section 115 Trust are City assets and are not considered to be pension contributions until they are transferred to CalPERS, which means that they cannot be used to offset the City’s net pension liability for financial statement reporting purposes. However, such assets are legally protected from the claims of the general creditors of the City and the City’s contributions to the Section 115 Trust and earnings on those contributions are irrevocable.

As of June 30, 2019, the Section 115 Trust balance amounted to approximately \$7,013,035 held in restricted cash and investments with Public Agency Retirement Services. The City will make future contributions and transfer moneys held in the Section 115 Trust to CalPERS at the City’s discretion. See the caption “—Governance and Management—Management Policies—Budgetary and Financial Policy” for further information about the Section 115 Trust.

A summary of principal assumptions and methods used to determine the total pension liability for Fiscal Year 2019 is shown below.

CITY OF ESCONDIDO
Actuarial Assumptions for CalPERS Miscellaneous Pension Plan

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
<i>Actuarial Assumptions:</i>	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by entry age and service
Investment Rate of Return	7.50% net of pension plan investment and administrative expenses; includes projected inflation rate of 2.75%
Mortality Rate Table ⁽¹⁾	Derived using CalPERS’ membership data for all funds

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Source: City.

On December 21, 2016, the CalPERS Board of Directors voted to lower its discount rate from the current rate of 7.50% to 7.00%. Effective with its June 2017 Comprehensive Annual Financial Report, CalPERS reduced its discount rate to 7.15% and its investment rate of return to 7.15%. The discount rate for Fiscal Year 2020 is 7.00%.

For public agencies such as the City, the new discount rate took effect July 1, 2017. Lowering the discount rate means that employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013 will also see their contribution rates rise under AB 340. The reduction of the discount rate will result in average employer rate increases of approximately 1% to 3% of normal cost as a percentage of payroll for most Miscellaneous retirement plans such as the City’s plan. Additionally, many employers will see a 30% to 40%

increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long-term.

Portions of the above information are primarily derived from information that has been produced by CalPERS, its independent accountants and its actuaries. The City has not independently verified such information and neither makes any representations nor expresses any opinion as to the accuracy of the information that has been provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on CalPERS' Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information that concerns benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

Changes in the net pension liability for the City's Miscellaneous plan in the most recent Fiscal Year for which information is available were as follows:

CITY OF ESCONDIDO
Changes in CalPERS Miscellaneous Pension Plan Net Pension Liability

	<i>Increase / (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position⁽¹⁾</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2017	\$ 412,473,215	\$ 277,837,855	\$ 134,635,360
Balance at June 30, 2018	<u>424,055,082</u>	<u>294,644,601</u>	<u>129,410,481</u>
Net Changes for period from July 1, 2017 through June 30, 2018	\$ 11,581,867	\$ 16,806,746	\$ (5,224,879)

⁽¹⁾ Does not include assets held in Section 115 Trust, in accordance with GASB Implementation Guide No. 2017-1 (which is described above).

Source: City.

The table below presents the net pension liability of the City's Miscellaneous plan, calculated using the discount rate applicable to Fiscal Year 2019 (7.15%), as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

CITY OF ESCONDIDO
**Sensitivity of the CalPERS Miscellaneous Pension Plan Net Pension Liability to
Changes in the Discount Rate**

	<i>Discount Rate – 1% (6.15%)</i>	<i>Current Discount Rate (7.15%)</i>	<i>Discount Rate + 1% (8.15%)</i>
Plan's Net Pension Liability/(Asset)	\$183,436,597	\$129,410,481	\$84,472,753

Source: City.

CalPERS earnings reports for Fiscal Years 2010 through 2019 report investment gains of approximately 13.0%, 21.7%, 1.0%, 12.5%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6% and 6.7% (preliminary), respectively. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City.

The City's projections of Operation and Maintenance Costs under the caption "FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage" do not assume unusual increases in CalPERS contributions or other labor costs in the future. However, no assurance can be provided that such expenses will not increase significantly in the future. The City does not expect that any increased funding of pension benefits will have a material adverse effect on the ability of the City to pay the Bonds.

For additional information relating to the City's CalPERS Miscellaneous pension plan, see Note 13 to the City's audited financial statements set forth in Appendix A.

No Post-Employment Benefits. The City does not currently provide post-retirement health benefits to any of its employees.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, authority, special district 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: (a) the financial responsibility for a service is transferred to another public entity or to a private entity; (b) the financial source for the provision of services is transferred from taxes to other revenues; or (c) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations that are 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: (i) regulatory licenses, user charges, and user fees (but only to the extent that such proceeds exceed the cost reasonably borne by the entity in providing the service or regulation); and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts that are 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 that were existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters, and payments that are 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 Water Service do not exceed the costs that it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. See the caption "SECURITY FOR THE BONDS—Rate Covenant" for a description of the City's covenant to set rates and charges for the Water Service.

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 Articles XIII C and XIII D to the State Constitution. According to the "Title and Summary" of the Initiative prepared by

the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.”

Article XIIIID. Article XIIIID 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 XIIIID 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 XIIIID requires that any agency which imposes or increases 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, because fees for water service and wastewater service are a “fee” or “charge” as defined in Article XIIIID, the local government’s ability to increase such fees or charges may be limited by a majority protest.

In addition, Article XIIIID includes a number of limitations that are applicable to existing fees and charges, including provisions to the effect that: (a) revenues that are derived from the fee or charge may not exceed the funds which are required to provide the property-related service; (b) such revenues may not be used for any purpose other than that for which the fee or charge was imposed; (c) the amount of a fee or charge that is 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 (d) 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 XIIIID did not apply to charges for water and wastewater services that are “primarily based on the amount consumed” (i.e., metered water or wastewater rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The State Supreme Court ruled 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 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 complied with the notice, hearing and protest procedures in Article XIIIID, as further explained by the State Supreme Court in the *Bighorn Case*, with respect to the water rate increases that were approved in 2017. See the caption “THE WATER SYSTEM—Water System Rates and Charges.”

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*, 235 Cal. App. 4th 1493 (2015) (the “**SJC Case**”), 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 included 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 residential water rates, which are described under the captions “THE WATER SYSTEM—Water System Rates and Charges” include tiered rates based on usage. The City believes that its current water rates comply with the requirements of Proposition 218, including the *SJC Case*, and expects that any future water rate increases will comply with Proposition 218’s procedural and substantive requirements to the extent applicable thereto.

Article XIIIIC. Article XIIIIC 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 XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIII D referred to above are applicable to Article XIII C. Moreover, the provisions of Article XIII C 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 XIII C applied to 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.

On November 15, 2018, the California Court of Appeal, Third District, issued an opinion in *Wilde v. City of Dunsmuir* (2018) 29 Cal.App.5th 158 (the “*Wilde Case*”) holding that taxpayers have the right under the Initiative to place a referendum on the ballot and vote on whether to repeal a city’s water rates. The *Wilde Case* concerned increases in water rates to fund specific water storage and delivery projects of the city (rather than to fund general operations of a water system) which the court concluded were legislative in nature and therefore subject to referendum. The City has reviewed the *Wilde Case* decision and determined that the decision does not directly impact the City and its water rate structure.

In any event, the City does not believe that Article XIII C grants to the voters within the City the power (whether by initiative under Article XIII C or otherwise, or by referendum, which is not authorized under Article XIII C) to repeal or reduce rates and charges for the Water Service in a manner that would interfere with the contractual obligations of the City or the obligation of the City to maintain and operate the Water System. However, there can be no assurance as to the availability of particular remedies adequate to protect the Beneficial Owners of the Bonds. Remedies that are available to Beneficial Owners of the 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 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the Bonds and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

In addition to the specific limitations on remedies which are contained in the applicable documents themselves, the rights and obligations with respect to the Bonds, the Indenture and the Installment Purchase Agreement 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 opinions of Bond Counsel (the forms of which are set forth in Appendix C), will be similarly qualified.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to the State’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, in addition to the other matters that are described in this Official Statement, should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be comprehensive, definitive or an exhaustive listing of risks and other considerations that may be relevant to making an investment decision with respect to the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. If any risk factor materializes to a sufficient degree, it alone could delay or preclude payment of principal of or interest on the Bonds.

Limited Obligations

The obligation of the City to pay the Series 2019 Installment Payments 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 Revenues of the Water System. The obligation of the City to pay the Series 2019 Installment Payments 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 Net Revenues available to pay the Series 2019 Installment Payments, the City has made certain assumptions with regard to various matters, including but not limited to future development within the City and increases in revenues resulting therefrom, the rates and charges to be imposed in future years, the expenses associated with operating the Water 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 such assumptions fail to materialize, the Net Revenues available to pay the Series 2019 Installment Payments will, in all likelihood, be less than those projected herein. See the caption “FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage.”

Water System Demand

There can be no assurance that the demand for Water Service 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. See the caption “SECURITY FOR THE BONDS—Rate Covenant.” Demand for Water Service could be reduced or may not occur as projected by the City as a result of reduced levels of development in the City’s service area, hydrological conditions, conservation efforts, an economic downturn, mandatory State conservation orders, increased purchases of recycled water (the revenues from which do not constitute pledged Revenues) and other factors. See the caption “THE WATER SYSTEM—Effect of Recycled Water Sales.”

System Expenses

General. There can be no assurance that the City’s expenses will be consistent with the descriptions in this Official Statement. Operation and Maintenance Costs may vary with groundwater conditions, the cost of imported water and the quality and amount of local supplies as well as treatment costs, regulatory compliance costs, labor costs (including costs related to pension benefits) and other factors.

Much of the City’s water supply is sold to the City by other public agencies, and increases in such agencies’ costs or changes in such agencies’ operations over which the City has no control could impact the City’s cost of water to supply its customers. See the caption “THE WATER SYSTEM—Water Supply—Imported Water Supply.” Increases in Operation and Maintenance Costs could require an increase in rates or charges in order to comply with the rate covenant. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

Availability of Local Water. In addition to imported water, the City has had broad rights to local water supplies since its founding. See the caption “THE WATER SYSTEM—Water Supply—Local Water Supply.” The City expects that local water supplies will continue to be available to it and the Water System in the future, subject to local weather and other conditions. However, in recent decades such use has been the subject of significant litigation among various parties, including a number of Native American bands claiming rights to the water. A settlement of this litigation was authorized by the United States Congress through the San Luis Rey Indian Water Rights Settlement Act, Title I, Public Law 100-675, Act of November 17, 1988, 102 Stat. 4000 (the “**Settlement Act**”). In 2017, the parties reached an agreement to implement the Settlement Act under which the Native American bands received an entitlement to up to five billion gallons of Colorado

River water annually and the City and VID will continue to enjoy the benefit of local water supplies from the San Luis Rey River. In addition, to the extent that the Native American bands do not need their full Colorado River imported water entitlement in any year, the City and VID can purchase the excess at market rates.

There can be no assurance that the implementation of the Settlement Act will not result in additional litigation or that other disputes concerning the City's local water supply rights will not arise in the future. If a court or government agency were to reduce or deny the availability of local water supplies, whether as a result of the dispute described above or otherwise, the City could be required to purchase additional imported water in amounts that exceed the projections herein, which likely would result in an increase of Operation and Maintenance Costs. In turn, increased Operation and Maintenance Costs could reduce Net Revenues of the Water System which are available to make the Series 2019 Installment Payments.

Limited Recourse on Default

If the City defaults on its obligation to pay the Series 2019 Installment Payments, the Trustee, as assignee of the Authority, has the right to declare the total unpaid principal amount of the Series 2019 Installment Payments, 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 such accelerated amounts 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 Water System rates and impose rate increases, and no assurance can be given that future proposals to increase Water System rates will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed Water System 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 Installment Purchase Agreement to pay the Series 2019 Installment Payments. The City believes that its current Water System rates approved by the City Council were effected in accordance with the public hearing and majority protest provisions of Proposition 218. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218."

Statutory and Regulatory Compliance

Laws and regulations governing treatment and delivery of water 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 Water System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Water System and constitute Operation and Maintenance Costs or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for municipal water 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 in amounts that are sufficient to pay the Bonds.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, earthquake, wildfire, drought, high winds, landslide or flood, could have an adverse material impact on the economy within the City and the revenues available for the payment of the Bonds and result in substantial damage to and interference

with the operations of the Water System. A safety report for parts of the Water System states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the Water System. Portions of the City's service area may be subject to unpredictable seismic activity. See the caption "THE WATER SYSTEM—Seismic Considerations."

Seismic activity could subject areas of the City to widespread flooding in the event of a failure of Lake Wohlford Dam, although the City has lowered the level of water in Lake Wohlford dam in order to minimize this risk. See the caption "THE WATER SYSTEM—Water Supply—Local Water Supply." However, there can be no assurance that an earthquake would not lead to flood damage in the City.

In addition, several wildfires have burned structures in and near the City in recent years.

The Installment Purchase Agreement does not require the City to maintain earthquake insurance and the City currently does not maintain such insurance. The City maintains liability insurance for the Water System and property casualty insurance (for losses other than from seismic events) for certain portions of the Water System. See the caption "THE CITY—City Insurance." 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, significant portions of the Water System, including underground pipelines, are not covered by property casualty insurance. Damage to such portions of the Water System as a result of natural disasters would result in uninsured losses to the City.

Limitations on Remedies

The ability of the City to comply with its covenants under the Installment Purchase Agreement and to generate Net Revenues in amounts that are sufficient to pay the Series 2019 Installment Payments 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 that are available to the owners of the 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, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium proceedings and other laws relating to or affecting creditors' rights, or the exercise of powers by the federal or State government, if initiated, could subject the Beneficial Owners of the 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 because the Water System serves an essential public purpose.

The opinions to be delivered by Bond Counsel concurrently with the issuance of the Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See Appendix C. In the event that the City fails to comply with its covenants under the Installment Purchase Agreement or fails to pay the Series 2019 Installment Payments, which secure the payments of principal of and interest on the Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority and the City have covenanted in the Indenture and the Installment Purchase Agreement, respectively, 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 Bonds thereunder. Interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such Bonds as a result of acts or omissions of the Authority or the City in violation of this or other covenants in the Indenture or the Installment Purchase Agreement. The 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 EXEMPTION.”

Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing 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 Installment Purchase Agreement permits the City to enter into Parity Bonds and Contracts payable from Net Revenues on a parity with the Series 2019 Installment Payments, which secure the Bonds, subject to the terms and conditions set forth therein. The entry into of additional Parity Bonds and Contracts could result in reduced Net Revenues available to pay the Series 2019 Installment Payments. The City has covenanted to maintain coverage of at least 120% of Debt Service, as further described under the caption “SECURITY FOR THE BONDS—Additional Parity Bonds and Contracts.”

Climate Change

The State has historically been susceptible to wildfires and hydrologic variability. As greenhouse gas emissions continue to accumulate in the atmosphere as a result of economic activity, climate change is expected to intensify, increasing the frequency, severity and timing of extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves, and raising sea levels. The future fiscal impact of climate change on the Water System is difficult to predict, but it could be significant and it could have a material adverse effect on the City’s finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of Water System customers.

Cyber Security

Municipal agencies, like other business entities, face significant risks relating to the use and application of computer software and hardware. Recently, there have been significant cyber security incidents affecting municipal agencies, including a freeze affecting computer systems of the City of Atlanta, an attack on the City of Baltimore’s 911 system, an attack on the Colorado Department of Transportation’s computers and an attack that resulted in the temporary closure of the Port of Los Angeles’ largest terminal.

The City employs a multi-level cyber protection scheme that includes firewalls (both host-based and network-based), anti-virus software, anti-spam/malware software, intrusion protection, domain name system filtering software and other measures. The City contracts with third party vendors to perform an external audit

of its network every two years and performs a similar internal audit annually. The next external audit will occur in 2020. The City also contracts with third party vendors to monitor and augment internal monitoring of the City's computer systems. The City's network topology employs firewalls at the core of its network to inspect, categorize and accept or reject all traffic between its internal and external virtual local area networks and networks. In 2019, the City implemented Deep Packet Inspection of Secure Sockets Layer traffic along with Capture Advanced Threat Protection on the firewalls (Capture ATP). With these features enabled, all network traffic, including Secure Sockets Layer encrypted traffic, is inspected. Email is inspected inbound and outbound by a cloud email filtering service. This prevents most malicious email traffic from ever traversing the City's Internet links. To further protect against the specific threat of file/Server Message Blocking-based attacks such as crypto viruses, the City employs numerous file screens and filtering on its servers to catch and prevent this class of attack before it is able to cause damage.

To date, the City has not experienced a successful attack against its network and servers. However, there can be no assurance that a future attack or attempted attack would not result in disruption of City operations. The City expects that any such disruptions would be temporary in nature due to its backup/restore procedures and disaster recovery planning.

THE AUTHORITY

The Authority is a public body that is duly organized and existing under the Joint Exercise of Powers Agreement, dated November 15, 1991 (the "**JPA Agreement**"), by and between the City and the Successor Agency to the Community Development Commission of the City of Escondido (the "**Successor Agency**"), and under the Constitution and laws of the State. The Authority was formed for the purpose of assisting in the financing and refinancing of capital improvement projects of the City and related entities and to finance working capital for the City by exercising the powers referred to in the JPA Agreement, including the power to issue bonds to pay the costs of public improvements. Neither the City nor the Successor Agency is responsible for repayment of the obligations of the other. The members of the Board of Directors of the Authority are the Mayor and members of the City Council of the City.

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel. The forms of such legal opinions are set forth in Appendix C, and such legal opinions will be attached to each applicable Bond. Certain matters will be passed upon for the City and the Authority by Michael McGuinness, Esq., the City Attorney and General Counsel to the Authority, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California, and for the Trustee by its counsel.

LITIGATION

City

General. At the time of delivery of and payment for the 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 Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that could have a material adverse effect on the City's ability to pay the Series 2019 Installment Payments, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Installment Purchase Agreement 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 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.

SDCWA-MWD Litigation. As described under the caption “THE WATER SYSTEM—Water Supply—Imported Water Supply,” the majority of the water served by the Water System is purchased from SDCWA, a member agency of MWD which receives water through MWD. In 2010, 2012, 2014, 2016 and 2018, SDCWA filed lawsuits against MWD challenging MWD’s adoption of water rates and charges effective January 1, 2011 through January 1, 2020. The 2010 and 2012 lawsuits were coordinated and proceeded to trial, while the 2014, 2016, and 2018 cases have been stayed by the court, pending final resolution of the 2010 and 2012 cases. The City is a member of SDCWA but was not a party to the litigation.

SDCWA alleged in the lawsuits that MWD’s water rates improperly allocated certain MWD costs, resulting in an overcharge to SDCWA. SDCWA alleged that such costs should be reclassified and reallocated so that MWD’s remaining members bear a larger share of the financial burden. On April 24, 2014, the trial court (San Francisco Superior Court) issued a final statement of decision in favor of SDCWA, finding no substantial evidence in the administrative record to support the inclusion of certain cost elements in MWD’s water rates (in particular, MWD’s System Access Rate and Water Stewardship Rate). The court could not lawfully order MWD to adopt a particular rate structure.

Other claims in the lawsuits included the following: (a) a claim for declaratory relief based on MWD’s alleged miscalculation of SDCWA’s preferential rights to water; and (b) a claim for breach of an agreement known as the Exchange Agreement against MWD. The parties disputed the correct measure of damages for a breach of the Exchange Agreement, and whether the court could properly award damages. Final judgment was entered by the court on November 18, 2015 in favor of SDCWA and against MWD on most of such other causes of action.

MWD and the member agencies appealed the trial court decision. On June 21, 2017, the California Court of Appeal issued an opinion (*San Diego County Water Authority v. Metropolitan Water District of Southern California* (2017) 12 Cal. App. 5th 1124, as modified on denial of rehearing (July 18, 2017), review denied (Sept. 27, 2017)), reversing the judgment and vacating a peremptory writ of mandate. The Court of Appeal remanded the case back to the trial court for recalculation of damages and entered declaratory relief on the rate structure integrity clause. The Court of Appeal also ordered a redetermination of the prevailing party and that the parties bear their respective costs and attorney fees incurred on the appeal and cross-appeal.

On appeal, the central issue in dispute was cost allocation of charges imposed by MWD for transporting (“**wheeling**”) water purchased from a third party. The court held that the inclusion of MWD’s system-wide transportation costs in the calculation of its wheeling rate, including charges paid to the State Water Project, did not violate the wheeling statutes or the terms of the Exchange Agreement. The court affirmed the trial court’s finding that the wheeling rate cannot include MWD’s Water Stewardship Rate (which was designed to fund a water conservation program) because the Water Stewardship Rate is supply-related, not transportation-related, and its inclusion as a component of the wheeling rate and Exchange Agreement transportation rates was unlawful. The Court of Appeal also found that SDCWA is entitled to recover the overcharges that resulted from inclusion of such charges in MWD’s water rates.

The City’s cost to purchase water from SDCWA constitutes an Operation and Maintenance Cost of the Water System. As a result of the Court of Appeal’s decision, and depending upon the actions of the trial court on the issues that were remanded, the City’s water charges paid to SDCWA could decrease, although the City is unable to predict the timing or amount of any such decreases. The projected operating results of the Water System which are set forth under the caption “FINANCIAL INFORMATION—Projected Water System Operating Results and Debt Service Coverage” do not reflect any adjustments in SDCWA imported water rates as a result of the lawsuit.

Authority

At the time of delivery of and payment for the Bonds, the Authority 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 Authority, threatened against the Authority affecting the existence of the Authority 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 Bonds, the application of the proceeds thereof in accordance with the Installment Purchase Agreement and the Indenture, or that could have a material adverse effect on the Authority's ability to pay the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, the Installment Purchase Agreement or any action of the Authority 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 Authority or its authority with respect to the Bonds or any action of the Authority contemplated by any of said documents, nor to the knowledge of the Authority, is there any basis therefor.

TAX EXEMPTION

2019A Bonds

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel ("**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 2019A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2019A Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2019A Bonds is based upon certain representations of fact and certifications made by the Authority, the City and others and is subject to the condition that the Authority and the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 2019A Bonds to assure that interest on the 2019A 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 on the 2019A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2019A Bonds. The Authority and the City have covenanted to comply with all such requirements.

The amount by which a 2019A Bond Owner's original basis for determining loss on sale or exchange in the applicable 2019A 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 2019A Bond Owner's basis in the applicable 2019A Bond (and the amount of tax-exempt interest received with respect to the 2019A 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 2019A Bond Owner realizing a taxable gain when a 2019A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019A Bond to the Owner. Purchasers of the 2019A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 2019A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2019A Bonds might be affected as a result of such an audit of the 2019A 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 2019A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2019A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2019A BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE 2019A BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2019A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2019A BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2019A BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE 2019A 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 2019A 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 2019A 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 for federal income tax purposes with respect to any 2019A 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 on the 2019A Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the City continue to comply with certain requirements of the Code, the ownership of the 2019A Bonds and the accrual or receipt of interest on the 2019A 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 2019A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019A Bonds.

Should interest on the 2019A Bonds become includable in gross income for federal income tax purposes, the 2019A Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel for the 2019A Bonds is set forth in Appendix C.

2019B 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 2019B Bonds is *not* excluded from gross income for federal income tax purposes under Section 103 of the Code, but is exempt from State of California personal income tax.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable 2019B 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 2019B Bond may elect to amortize under Section 171 of the Code; such amortizable bond premium reduces the Beneficial

Owner's basis in the applicable 2019B Bond (and the amount of taxable interest received with respect to the 2019B 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 Beneficial Owner realizing a taxable gain when a 2019B Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019B Bond to the Beneficial Owner. The Beneficial Owners of the 2019B Bonds that have a basis in the 2019B Bonds that is greater than the principal amount of the 2019B Bonds should consult their own tax advisors with respect to whether or not they should elect such premium under Section 171 of the Code.

In the event of a legal defeasance of the 2019B Bonds, such 2019B Bonds might be treated as retired and "reissued" for federal tax purposes as of the date of the defeasance, potentially resulting in recognition of taxable gain or loss to the applicable 2019B Bondholder generally equal to the difference between the amount deemed realized from the deemed redemption and reissuance and the 2019B Bondholder's adjusted tax basis in such 2019B Bond.

The tax discussion set forth above is included for general information only and may not be applicable depending upon a 2019B Bond Owner's particular situation. The ownership and disposal of the 2019B Bonds and the accrual or receipt of interest on the 2019B 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 2019B BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR INDEPENDENT TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES RELATING TO THE 2019B BONDS AND THE TAXPAYER'S PARTICULAR CIRCUMSTANCES.

A copy of the proposed form of opinion of Bond Counsel for the 2019B Bonds is set forth in Appendix C.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate, dated the date of issuance of the Bonds (the "**Continuing Disclosure Certificate**"), for the benefit of the Owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City by not later than each April 1 following the end of the City's Fiscal Year (currently its Fiscal Year ends on June 30) (the "**Annual Report**"), 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 EMMA. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with Section (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission.

In each of the past five years, the City filed its audited financial statements with EMMA after the date (December 1) by which such statements were required to be filed under a continuing disclosure agreement relating to the issuance of the City of Escondido Reassessment District No. 98-1 (Rancho San Pasqual) Limited Obligation Refunding Bonds. The City's audited financial statements were filed as soon as they were available, but the City did not file unaudited financial statements or notices that the audited financial statements would be filed late. Except as described in this paragraph, the City and its related entities have not failed to comply with the terms of their prior continuing disclosure undertakings in any material respect in the last five years.

In order to assure compliance with its continuing disclosure obligations going forward, the City has adopted continuing disclosure compliance policies and procedures as part of its debt management policy. See the caption "THE CITY—Governance and Management—Management Policies—Debt Management Policy." In addition, the City has retained Special District Financing and Administration to assist it with preparing and submitting the City's continuing disclosure filings.

RATING

The Authority expects that S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), will assign the Bonds the rating of "AA-".

There is no assurance that the credit rating given to the 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 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. Generally, rating agencies base their ratings on information and materials that is furnished to them (which may include information and material from the City that is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

The City has covenanted in the Continuing Disclosure Certificate to file notices of any rating changes on the Bonds with EMMA. See the caption "CONTINUING DISCLOSURE" and Appendix E. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from S&P prior to such information being provided to the City and prior to the date by which the City is obligated to file a notice of rating change. Purchasers of the Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current rating with respect to the Bonds after the initial issuance of the Bonds.

In providing a rating on the Bonds, S&P may have performed independent calculations of coverage ratios using its own internal formulas and methodology, which may not reflect the provisions of the Indenture or the Installment Purchase Agreement. The City makes no representations as to any such calculations, and such calculations should not be construed as a representation by the City as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of debt service or for any other purpose.

MUNICIPAL ADVISOR

The City has retained CSG Advisors Incorporated, San Francisco, California (the "**Municipal Advisor**") as its municipal advisor in connection with the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained herein.

The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "**Underwriter**") pursuant to a purchase agreement, dated the date hereof, by and among the Authority, the City and the Underwriter. The Underwriter will purchase the Bonds from the Authority at an aggregate purchase price of \$54,216,237.00, representing the principal amount of the Bonds, plus \$4,075,162.00 of original issue premium/discount and less \$238,925.00 of Underwriter's discount.

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

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 Bonds.

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

**ESCONDIDO JOINT POWERS FINANCING
AUTHORITY**

By: /s/Jeffrey Epp 
Secretary

CITY OF ESCONDIDO

By: /s/Jeffrey Epp 
City Manager

APPENDIX A
CITY FINANCIAL STATEMENTS



Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2018

CITY OF ESCONDIDO CALIFORNIA



CITY OF ESCONDIDO - CALIFORNIA

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2018



Sam Abed
Mayor

John Masson
Deputy Mayor
District 2

Ed Gallo
District 1

Olga Diaz
District 3

Michael Morasco
District 4

CITY MANAGER

ASSISTANT CITY MANAGER

DEPUTY CITY MANAGER

DEPUTY CITY MANAGER

DIRECTOR OF COMMUNITY DEVELOPMENT

DIRECTOR OF COMMUNICATIONS
AND COMMUNITY SERVICES

DIRECTOR OF INFORMATION SYSTEMS

DIRECTOR OF ENGINEERING SERVICES

DIRECTOR OF UTILITIES

CHIEF OF POLICE

FIRE CHIEF

CITY ATTORNEY

CITY CLERK

CITY TREASURER

Jeffrey Epp

Jay Petrek

Sheryl Bennett

William Wolfe

Bill Martin

Joanna Axelrod

Robert Van De Hey

Julie Procopio

Christopher McKinney

Craig Carter

Rick Vogt

Michael R. McGuinness

Diane Halverson

Douglas Shultz



CITY OF ESCONDIDO
Comprehensive Annual Financial Report
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June 30, 2018

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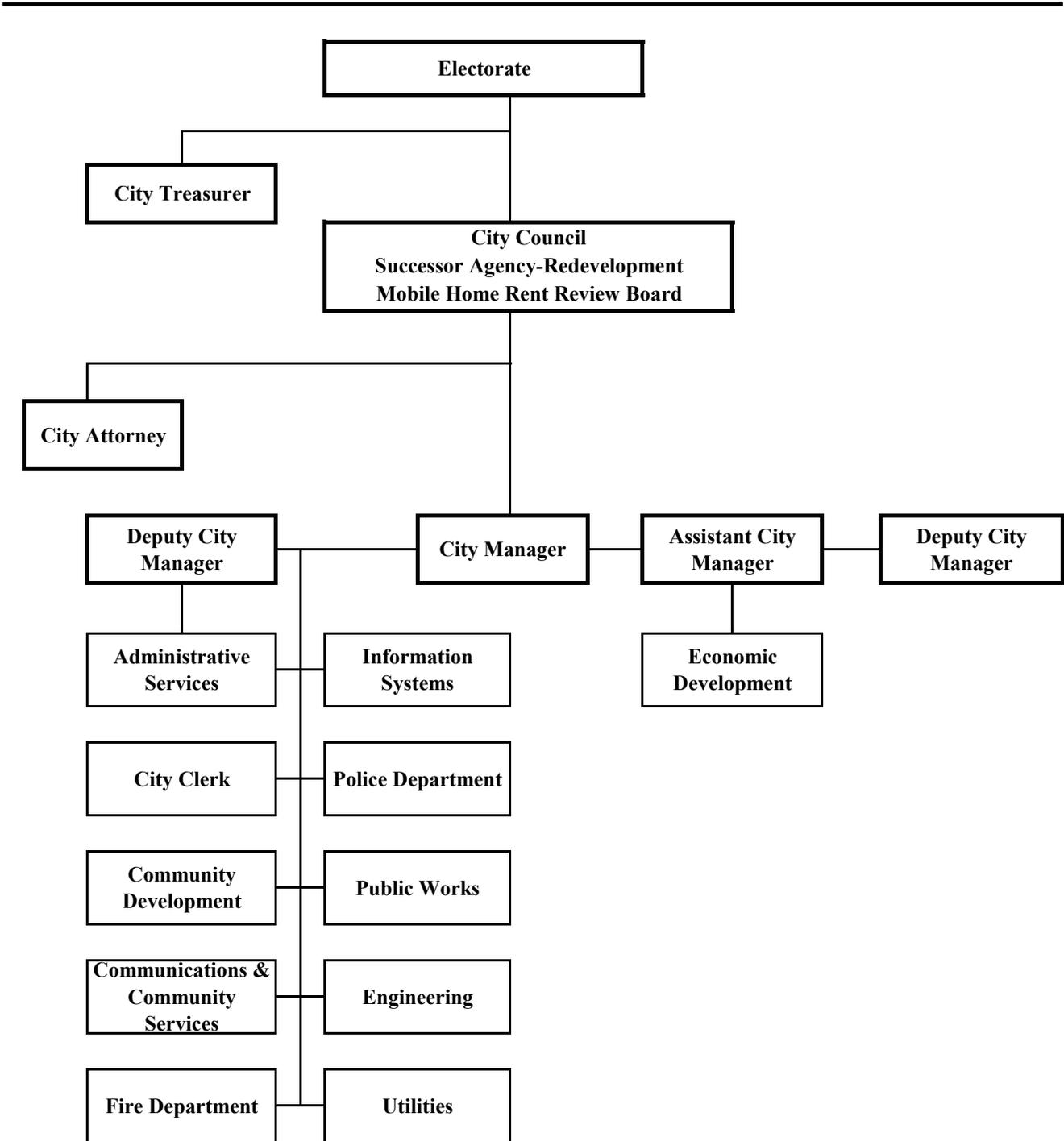
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CITY OF ESCONDIDO
Comprehensive Annual Financial Report
Organization Chart
June 30, 2018



December 28, 2018

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, 2018.

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 The Pun Group, 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, 2018, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City of Escondido's financial statements for the fiscal year ended June 30, 2018, 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, The Pun Group 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 Uniform Guidance 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.

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 151,478. Within the 36 square miles that comprise the City, there are many residential communities; the largest enclosed regional mall in San Diego County; 1 regional hospital; 16 hotels; an auto center; many office, industrial, and commercial centers; and civic, cultural, and recreational facilities.

CITY OF ESCONDIDO
Letter of Transmittal
December 28, 2018

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 Administrative Services, City Clerk, Community Development, Community Services, Fire, 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 Deputy City Manager / 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.

ECONOMIC CONDITION

Local Economy. Escondido's economy is one of the most diversified in North San Diego County. Industries such as healthcare, specialty food and beverage manufacturing, agriculture, professional services and precision manufacturing all call Escondido home. Retail sales are among the highest in San Diego County due to the presence of the Escondido Auto Park and Westfield North County. Palomar Medical Center, which opened its doors in the Escondido Research and Technology Center in 2012, is the centerpiece of the region's health care system and is recognized as one of the most technologically advanced hospitals in the world. Escondido is home to dozens of innovative companies and entrepreneurs, with one of the highest numbers of recorded patents per capita in the nation.

CITY OF ESCONDIDO
Letter of Transmittal
December 28, 2018

Long-term Financial Planning. The City adopted a balanced budget for fiscal year 2017-18 with the assumption that sales tax and property tax revenue will continue to show growth. For the eighth year in a row, the City Council adopted a budget that does not rely on reserves for fiscal year 2018-19. The two-year General Fund budget was adopted with the assumption that sales tax, the City's largest revenue source that represents 38 percent of total General Fund revenue, grow by \$1.1 million or 3 percent. This 3 percent projected increase in sales tax for 2018-19 is based primarily on projected growth in construction of 5 percent as well as projected growth in equipment and vehicle leasing of 7 percent.

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. The City Council's Action Plan has four major priority areas: Economic Development, Fiscal Management, Neighborhood Improvement and Public Safety. Each major priority area has a single overarching goal that includes achieving economic health, a safe community, high performing local government, neighborhood livability, and effective transportation routes throughout the City of Escondido.

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 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 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. In addition, 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 \$17.3 million in General Fund Reserves.

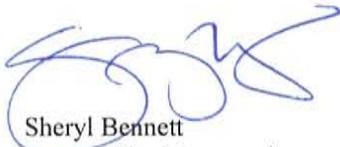
CITY OF ESCONDIDO
Letter of Transmittal
December 28, 2018

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, 2017. 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
Deputy City Manager /
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, 2017

Christopher P. Morill

Executive Director/CEO



Financial Section



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of Escondido
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 the City of Escondido, California (the "City"), as of and for the year ended June 30, 2018, 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 did not audit the financial statements of California Center for the Arts, Escondido Foundation (the "Foundation"), which represent 100%, 100%, and 100%, respectively, of the assets, net position, and revenues of the aggregate discretely presented component. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.

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 of 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 City'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 City'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.

4365 Executive Drive, Suite 710, San Diego, California 92121

Tel: 858-242-5100 • Fax: 858-242-5150

www.pungroup.com

To the Honorable Mayor and Members of the City Council
of the City of Escondido
Escondido, California
Page 2

Opinions

In our opinion, based on our audit and the report of other auditors, 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, 2018, 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, Budgetary Comparison Schedules, Schedules of Changes in Net Pension Liability and Related Ratios, and Schedules of Plan Contributions on pages 19 through 30 and 101 through 108 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 Budgetary Comparison 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 Budgetary Comparison 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 Budgetary Comparison 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
of the City of Escondido
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Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2018, 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 solely 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 the effectiveness of the City's 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.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

San Diego, California
December 28, 2018

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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, 2018. We encourage readers to consider the information presented here in conjunction with additional information furnished in our Letter of Transmittal at the front 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 plus deferred inflows of the City by \$420,353,010 (*net position*).
- The City's total government-wide net position increased by \$2,477,535 in the current year, a 0.6 percent increase.
- The net position of Governmental activities decreased by 3.7 percent or \$8.1 million. This is primarily attributable to the net pension liability activity and pension related deferred inflows and outflows.
- The net position of Business-type activities increased by 5.3 percent or \$10,590,404. This is due to increased water consumption and a 5.5% rate increase that went into effect in March 2017.

Fund Basis:

- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balance of \$121,518,806, an increase of \$3,640,866 in comparison with the prior year.
- At the end of the current fiscal year, fund balance committed to Reserves in the General Fund was \$17,392,319 or 17.6 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 include general government, public safety, community services, public works, and community development. The business-type activities of the City include Water and Wastewater services.

CITY OF ESCONDIDO Management's Discussion and Analysis

The government-wide financial statements include not only the City itself (known as the *primary government*), but also two legally separate component units: the Escondido Vehicle Parking District and the Escondido Joint Powers Financing Authority. The component units have been “blended” into the City’s financial statements because the governing board (although legally separate from the City) is substantially the same as the City’s.

As of February 1, 2012, a Successor Agency was created to replace the Escondido Community Development Commission (CDC). The Successor Agency is considered a separate legal entity under Assembly Bill (AB) 1484 for financial statement presentation purposes and are reported as a Private Purpose Trust Fund.

Also presented in the government-wide financial statements is a discretely presented component unit, the California for the Arts, Escondido Foundation (Foundation). It is included as a discretely presented component unit because the Foundation is fiscally dependent on the City; the City has assumed the obligation to provide financial support to the organization including the Center’s management fee, facility, and additional funding as needed based on annual operations. The City issued bonds in 1992 for the construction of the facility and was obligated for those payments. In addition, all land and buildings used by the Foundation is legally owned by the City. Financial information for this component unit is reported separately from the financial information presented for the primary government in a separate column on the government-wide financial statements as well as throughout the notes to the financial statements.

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 18 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 16 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 which reflects its priorities and informs the public how the City’s funds are being spent. Budgetary comparison schedules for the General Fund and the Successor Agency Housing Special Revenue Fund have been provided in the required supplementary information of this report. These demonstrate compliance with the budget, and also reflect in what areas actual results deviated from expected budgetary estimates. Budgetary combining schedules for the other nonmajor governmental funds are provided after the combining statements.

CITY OF ESCONDIDO Management's Discussion and Analysis

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 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.

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.

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

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 as well as budgetary comparison statements for major governmental funds. The combining statements referred to earlier, in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information.

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 plus deferred inflows of resources by \$420,353,010.

Below are the three components of net position and their respective fiscal year-end balances:

- **Net investment in capital assets:** At June 30, 2018, the net investment in capital assets represents \$402.7 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, 2018 restricted net position account for 24.9 percent, or \$104.8 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:** Unrestricted net position can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. At June 30, 2018 unrestricted net position was (\$86.9) million.

CITY OF ESCONDIDO
Management's Discussion and Analysis

City of Escondido's Summary of Net Position

As of June 30, 2018 and 2017

(Amounts expressed in thousands)

	Governmental activities		Business-type activities		Total Primary Government		Total Percent Change
	2018	2017	2018	2017	2018	2017	
Current and other assets	\$ 184,634	\$ 176,563	\$ 82,967	\$ 85,383	\$ 267,601	\$ 261,946	2.11%
Capital assets	295,303	298,250	302,296	287,190	597,599	585,440	2.03%
Total Assets	<u>479,937</u>	<u>474,813</u>	<u>385,263</u>	<u>372,573</u>	<u>865,200</u>	<u>847,386</u>	2.06%
Deferred outflows of resources	52,977	46,204	11,940	10,460	64,917	56,664	12.71%
Long-term liabilities outstanding	300,486	284,071	164,036	174,029	464,522	458,100	1.38%
Other liabilities	19,683	10,252	24,164	10,224	43,847	20,476	53.30%
Total Liabilities	<u>320,169</u>	<u>294,323</u>	<u>188,200</u>	<u>184,253</u>	<u>508,369</u>	<u>478,576</u>	5.86%
Deferred inflows of resources	1,093	6,929	302	669	1,395	7,598	-444.66%
Net position:							
Net investment in capital assets	218,992	218,477	183,765	188,877	402,757	407,354	-1.14%
Restricted	104,852	100,550	3,642	-	108,494	100,550	7.32%
Unrestricted	(112,192)	(99,262)	21,294	9,234	(90,898)	(90,028)	0.96%
Total net position	<u>\$ 211,652</u>	<u>\$ 219,765</u>	<u>\$ 208,701</u>	<u>\$ 198,111</u>	<u>\$ 420,353</u>	<u>\$ 417,876</u>	0.59%

Pension Plan and Section 115 Trust

The City provides retirement benefits through the California Public Employees Retirement System (CalPERS). Eligible employees participate in either a safety or miscellaneous multiple-employer public employee defined benefit pension plan, depending on eligibility. In fiscal year 2014/2015, the City implemented Government Accounting Standards Board (GASB) No. 68 and 71 that required the city to put their net pension liability on the books. The City's net pension liability at June 30, 2018, is \$251.9 million, compared to \$221.6 million at June 30, 2017. Changes in the various components associated with the pension pronouncement impacted current year expenses, deferred outflows and inflows, as well as increased the pension liability for the year for both governmental and business type activities.

During fiscal year 2017/2018, the City entered into a Section 115 Trust to help address the City's pension obligations by accumulating assets to reduce the net pension liability. Although the assets held in the Section 115 Trust are not considered to have the present service capacity as pension plan assets, these assets will be considered pension plan assets at the time they are transferred out of the Trust and into the pension plan. At June 30, 2018, the Section 115 Trust balance amounted to approximately \$1.9 million held in restricted cash and investments in the General Fund.

The recording of the net pension liability also created a deficit in the unrestricted net position of the City. In the current fiscal year, the City is able to report positive balances in all categories of net position as a whole except for unrestricted net position.

CITY OF ESCONDIDO
Management's Discussion and Analysis

City of Escondido's Changes in Net Position

As of June 30, 2018 and 2017

(Amounts expressed in thousands)

	Governmental activities		Business-type activities		Total		Total Percent Change
	2018	2017	2018	2017	2018	2017	
Revenues:							
Program revenues:							
Charges for services	\$ 19,009	\$ 18,689	\$ 96,015	\$ 89,609	\$ 115,024	\$ 108,298	5.85%
Operating grants and contributions	9,980	9,441	143	30	10,123	9,471	6.44%
Capital grants and contributions	9,565	6,622	8,229	1,767	17,794	8,389	52.85%
General revenues:							
Sales tax	42,100	37,906	-	-	42,100	37,906	9.96%
Property taxes	33,109	30,830	-	-	33,109	30,830	6.88%
Other taxes	11,024	10,654	-	-	11,024	10,654	3.36%
Other	6,913	7,603	1,526	1,445	8,439	9,048	-7.22%
Total revenues	<u>131,700</u>	<u>121,745</u>	<u>105,913</u>	<u>92,851</u>	<u>237,613</u>	<u>214,596</u>	9.69%
Expenses:							
General government	11,320	9,358	-	-	11,320	9,358	17.33%
Public safety	80,848	71,876	-	-	80,848	71,876	11.10%
Community services	13,453	12,572	-	-	13,453	12,572	6.55%
Public works	25,876	22,108	-	-	25,876	22,108	14.56%
Community development	5,516	5,077	-	-	5,516	5,077	7.96%
Interest and fiscal charges	2,850	2,646	-	-	2,850	2,646	7.16%
Water	-	-	62,431	57,315	62,431	57,315	8.19%
Wastewater	-	-	32,843	32,361	32,843	32,361	1.47%
Total expenses	<u>139,863</u>	<u>123,637</u>	<u>95,274</u>	<u>89,676</u>	<u>235,137</u>	<u>213,313</u>	9.28%
Special item on dissolution of redevelopment agency	-	22,360	-	-	-	22,360	0.00%
Increase (decrease) in net position before transfers	(8,163)	20,468	10,639	3,175	2,476	23,643	-855%
Transfers	50	25	(50)	(25)	-	-	-
Increase (decrease) in net position after transfers	(8,113)	20,493	10,589	3,150	2,476	23,643	-855%
Net position – July 1	219,765	199,272	198,111	194,961	417,876	394,233	5.66%
Net position – June 30	<u>\$211,652</u>	<u>\$219,765</u>	<u>\$ 208,700</u>	<u>\$198,111</u>	<u>\$ 420,352</u>	<u>\$ 417,876</u>	0.59%

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 \$8,112,869. As noted earlier, the decrease in net position is predominantly attributed to the net pension liability and related deferred inflows and outflows recorded during the fiscal year.

Other key factors affecting the net position were:

Total governmental revenues increased by \$9,957,438 or 8.2 percent during the current fiscal year resulting in total revenues of \$131.7 million. Key elements of this change are as follows:

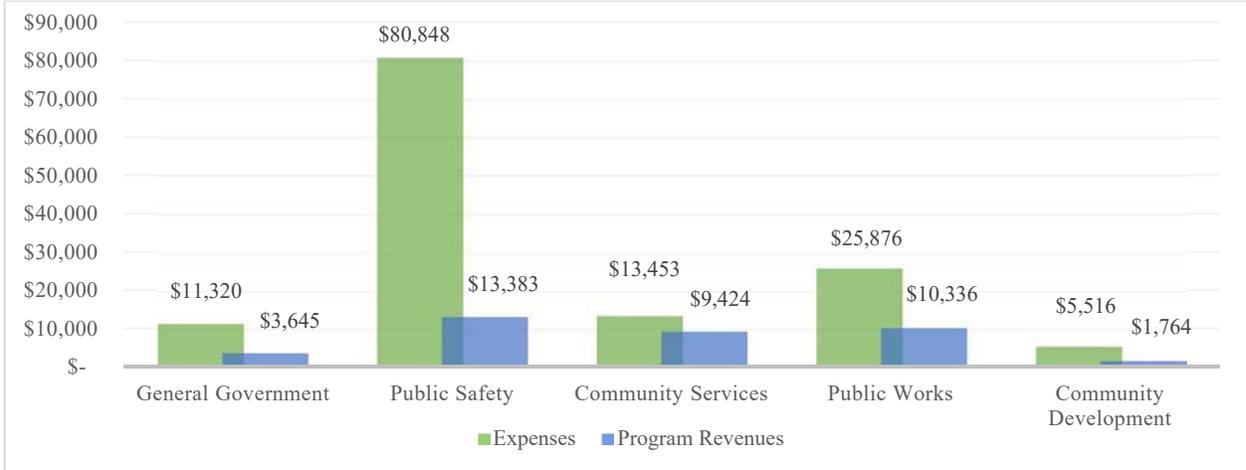
- Overall sales tax revenue increased by \$4.2 million, or 11 percent, compared to the prior year. General Fund sales tax revenue increased by \$485,000 but lower than projected by 2%. In late Fiscal Year 2018, the California Department of Tax and Fee Administration (CDTFA) modified the schedule of sales tax distributions to the City. Currently, the amount of remaining sales tax to be distributed is expected to be approximately \$800,000. Had the City received this amount during the current fiscal year, the City's sales tax projected growth of 3.5% would have been met.
- Sales tax revenue also increased due to an additional \$3.7 million over the prior year of TransNet funds, a half-cent countywide sales tax that helps fund regional transportation projects. This is due to ongoing capital improvement projects such as the East Valley Parkway project, Citracado and Harmony Grove project, and the annual pavement maintenance and rehabilitation program.
- Property tax revenue increased by \$2,279,550 over the prior fiscal year or 7.4 percent. The assessed value growth for Escondido in fiscal year 2017/18 was up about 7.0 percent compared to the prior year.
- Other tax revenue is composed of franchise, transient occupancy, business license, transfer station, and refuse taxes. All categories contributed to an overall increase in other tax revenue by \$372,000, or 3.5 percent.
- Overall charges for services increased by \$320,000 or 1.7 percent. Public safety charges for services increased by \$939,000 due to paramedic transport fees, which is the result of a 5% increase in the number of transports and a fee increase that went into effect on July 1, 2016. This increase was offset by a decrease in both public works charges for services of \$686,000 and community development charges for services of \$210,000 due to the timing of developer payments for engineering and planning fees.
- Operating grants and contributions increased by \$539,000, or 5.7 percent, primarily due to an increase in Gas Tax Funds as well as the new Road Maintenance and Rehabilitation (SB1) funds, a gas tax increase that went into effect November 1, 2017 and new vehicle registration fees that began on January 1, 2018.
- Capital grants and contributions increased by \$2.9 million, or 44.4 percent, compared to the prior year, due to capital contributions from developers for streets and storm drains as well reimbursements from local agencies for the widening of East Valley Parkway.
- In April 2018, the City's former Police Headquarters property, located at 700 West Grand Avenue, was sold resulting a net gain on the sale of capital assets in the amount of \$1.4 million.

Governmental activities expenses increased by \$16.2 million, or 13.1 percent, in fiscal year 2018.

- Public safety expenses increased by \$8.9 million, or 12.5 percent, compared to the prior year. This increase is due to the pension expense activity recorded as part of the net pension liability and pension related deferred inflows and outflows.
- Public works expenses increased by \$3.7 million, or 17.1 percent, primarily due to expenses incurred for the pavement rehabilitation program funded by the County Transportation organization, San Diego Association of Governments (SANDAG).

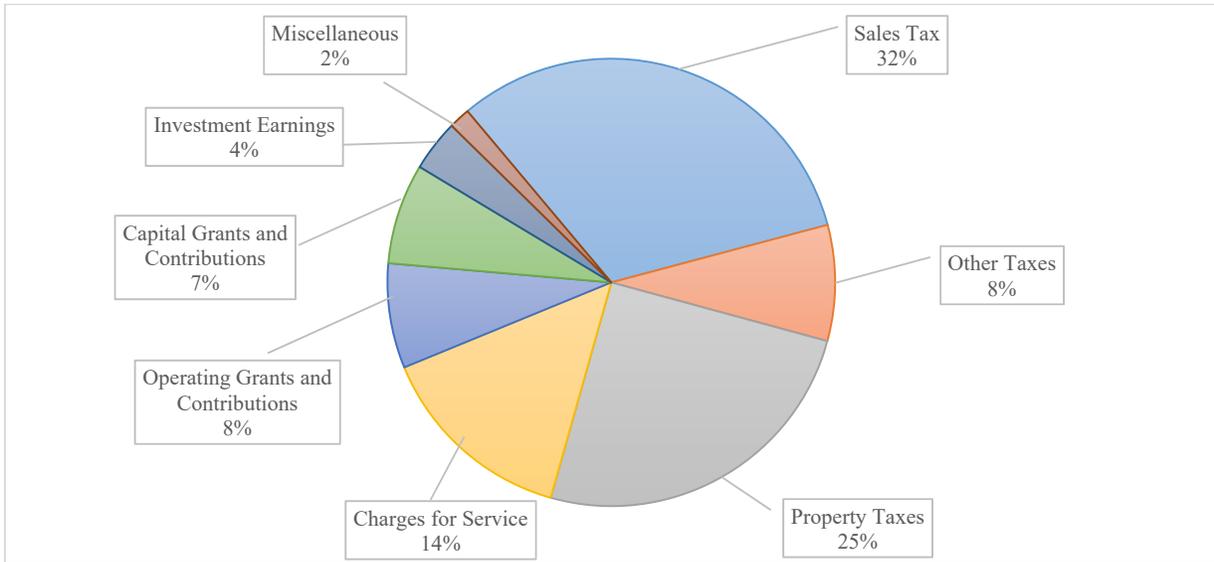
CITY OF ESCONDIDO
Management's Discussion and Analysis

Expenses and Program Revenues - Governmental Activities (amounts expressed in millions)



The City's programs include General Government, Public Safety (Fire and Police), Community Services, Public Works, and Community Development. Each program's net cost (total cost less revenues generated by the activities) is presented in the Statement of Activities. The table above compares program expenses to program revenues depicting the extent to which these programs generate revenue from fees and grants.

Revenues by Source – Governmental Activities



Sales tax, Property tax and other various taxes make up a combined 65% of the total sources of revenue for the City. Other categories of revenue include charges for services, intergovernmental revenue for both operating and capital purposes, fines and forfeitures, permit and license fees, as well as income from interest and property.

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

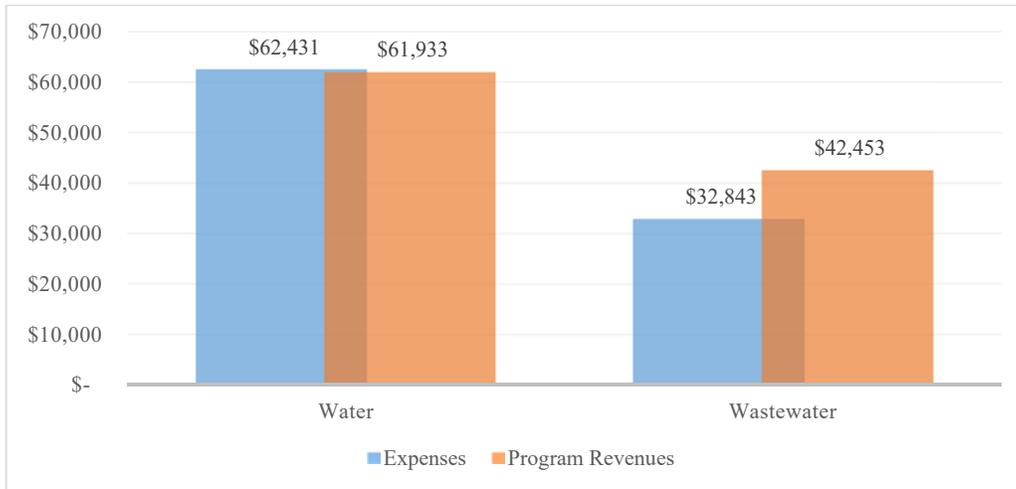
Analysis of Changes in Net Position – Business-type activities.

Business-type activities increased the City's net position by \$10,590,404 primarily due to increase in charges for services as well as capital grants and contributions.

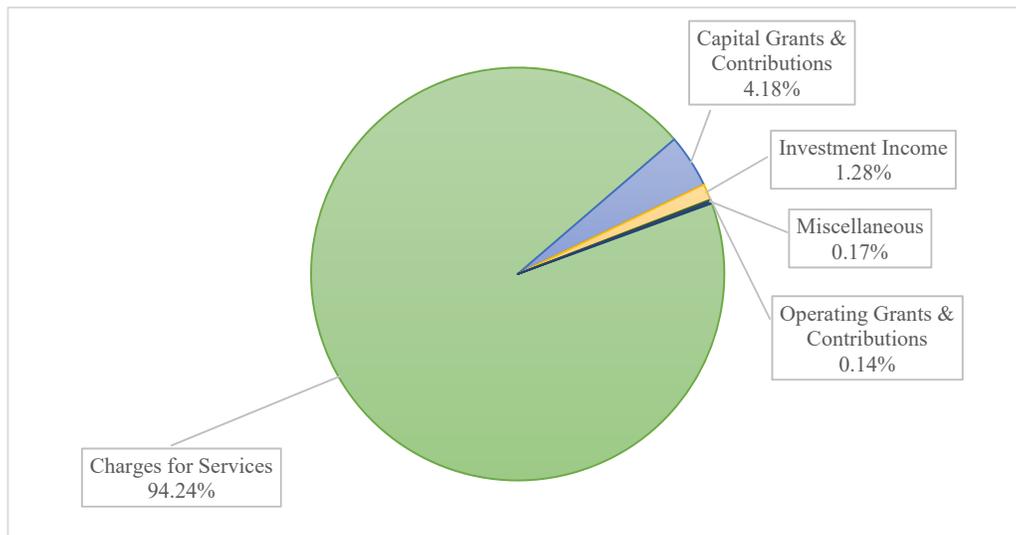
Charges for services increased by \$6.1 million, or 11.0 percent, in the Water Fund due to an increase in water consumption after the removal of the drought restrictions and a 5.5% rate increase in March 2017. Capital Grants and Contributions increased by \$6.5 million from the prior year due to sewer development fees received from an increase in construction and development activity throughout the City.

The increases in revenue were offset by an increase in Water Fund expenses that increased by \$5.1 million or 8.9 percent, from the prior year due to an increase in the cost of purchased City water.

Expenses and Program Revenues – Business-type Activities (amounts expressed in millions)



Revenues by Source – Business-type Activities



CITY OF ESCONDIDO Management's Discussion and Analysis

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 \$121,518,806, an increase of \$3,640,865 in comparison with the prior year. Of this amount, 8.5 percent or \$10,365,522 represents non-spendable assets, advances and loans receivable, which are not expected to be converted to cash until future periods.

Approximately 73.9 percent of this total amount or \$89,808,350 is not available for new spending because it is legally restricted by external third parties. In addition, \$19,853,253 or 16.3 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 City Manager to meet specific expenditures in subsequent years.

The remaining fund balance of \$1,491,681 is comprised of unassigned funds in the General Fund of \$2,839,620 and deficit fund balances in non-major special revenue funds of \$1,347,939. The unassigned General Fund balance, which is unrestricted in use, is anticipated to be designated by City Council for specific purposes at a future City Council meeting. Non-major special revenue fund deficits are due to the timing of grants and reimbursements from outside agencies where funds are spent in advance and reimbursed at a later date.

General Fund Financial Highlights. 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 \$17,392,319 in Reserves available to fund one-time unanticipated expenditures while total fund balance is \$33,983,800. 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 17.7 percent of total General Fund expenditures, while total fund balance represents 34.5 percent of that same amount.

The restricted portion of the fund balance of the General Fund of \$1,997,186 is the total value of assets held in the Section 115 Trust discussed above.

During the current fiscal year, the fund balance of the City's General Fund increased by \$2,816,548, or 9.0 percent, compared to the prior year. This increase is primarily due to one-time revenue received during the fiscal year from the sale of City owned land.

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 \$99.4 million and estimated expenditures and transfers out of \$99.4 million.

Management monitors revenues during the year and updates estimated revenue figures when new information is received by the City. General Fund revenue estimates were modified moderately during the year as compared to the originally budgeted estimates. A comparison of the original general fund budgeted operating revenue of \$97.3 million to the final general fund budgeted revenue of \$98.9 results in a net increase in budgeted revenue of \$1.6 million.

The primary reason for the increase to budgeted revenue is due to an \$810,000 increase in property tax revenue, a \$314,000 increase in revenue received from the Redevelopment Property Tax Transfer Fund, and a \$1.3 million increase in fire department reimbursements received for assisting with fire events outside the city limits. The remaining budget adjustments were due to various operating grants received during the fiscal year.

CITY OF ESCONDIDO
Management's Discussion and Analysis

Comparison of the fiscal year original general fund budgeted expenditures of \$98.6 million to the final General Fund budgeted expenditures of \$100.6 million results in a net increase in budgeted expenditures of \$2.0 million. A \$1.4 million budget adjustment was allocated to the fire department to cover costs for strike team incidents and grant funded training. Funding for these increases was provided from fire mutual aid and the Urban Area Security Initiative training grant.

Actual General Fund revenues were \$798,084 less than final budgeted amounts and expenditures were \$2.2 million less than final budgeted amounts. Year-end actual expenditures were less than the budgeted amounts due to salary and benefit savings from empty positions that were not filled during the fiscal year.

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 \$8,107,834, and \$18,112,389 respectively. Beginning in fiscal year 2014-2015, both the Water and Wastewater funds have set up an Operating, Debt, and Capital Reserve that will be used to ensure that both funds have adequate cash reserves to meet operating, capital and debt service requirements. The monies in this reserve can be used to meet emergency cash flow requirements, fund future capital projects, and provide protection from default on annual debt service payments.

Factors concerning the finances of these two funds have been addressed in the discussion of the City's business-type activities above.

Capital Asset and Debt Administration

Capital assets. As of June 30, 2018, the City's investments in capital assets for its governmental and business-type activities are \$597,600,160, (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 increase in the City's investment in capital assets for the current fiscal year is 2.1 percent; this represents a 1.0 percent decrease for governmental activities and a 5.2 percent increase for business-type activities.

City of Escondido's Capital Assets

(net of depreciation / in thousands)

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 52,704	\$ 52,059	\$ 2,979	\$ 2,875	\$ 55,683	\$ 54,934
Buildings and systems	102,096	107,925	10,874	11,448	112,970	119,373
Improvements other than buildings	13,339	13,544	728	757	14,067	14,301
Machinery and equipment	14,731	14,447	2,395	2,782	17,126	17,229
Infrastructure	94,915	98,819	219,740	200,460	314,655	299,279
Construction in progress	17,519	11,456	65,580	68,868	83,099	80,324
Total	\$ 295,304	\$ 298,250	\$ 302,296	\$ 287,190	\$ 597,600	\$ 585,440

CITY OF ESCONDIDO
Management's Discussion and Analysis

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

Construction in progress increased by a net \$6 million due to current year additions of \$10,522,490 and transfers of construction in progress of \$4,459,606. Current year additions include several street projects; continued work on the East Valley Parkway near Valley Center Road project, which expands a current two-lane road to four-lanes, active transportation projects and continued work on the Citracado Parkway expansion project. The Library is also in the process of implementing an automated materials handling project and radio frequency identification.

Current year transfers of construction in progress included the completion of the radio replacement project and Jim Stone Pool improvements. They also involved security enhancements to City Facilities as well as new street lighting in multiple neighborhoods funded by the Community Development Block Grant.

Machinery and equipment increased by a net \$3.3 million due in large to the completion of the radio replacement project. The increase also includes the purchase of new alerting systems at Fire Stations 2, 5, 6, and 7, computer servers and fleet related equipment such as a skid-steer loader and mowers.

Motorized vehicles increased by a net \$1.5 million due to current year additions, transfers, and contributions between funds. The City has a vehicle replacement schedule that predetermines vehicles that will need replacement in the near future. Some of the significant purchases during the fiscal year were a freightline crane truck, nineteen police vehicles, four Yaris', two F-350 trucks and two BMW motorcycles.

Additions to infrastructure totaled \$733,863. These additions were a storm drain contributed by developers and the streetlights from the multi-neighborhood street light project.

Land increased by a net \$919,996. A majority of this was land held for resale related to the Bear Valley Parkway street improvement project that was reclassified to land and the remainder was the purchase of land to move forward with the East Valley Parkway project.

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

Construction in progress decreased by a net \$3.3 million due to several capital improvement projects. The major projects under construction are the onsite chlorine generation at the Water Treatment Plant and the Vista Verde reservoir. Other additions to CIP include the Southwest Sewer project, upgrades to the primary building for odor control at the Hale Avenue Resource Recovery Facility and the San Elijo Outfall project.

Land increased by \$104,572 due to the reclassification of land held for resale to land. Machinery and equipment increased by a net \$502,005 due to the purchase of various pumps and actuators, along with other equipment.

Additions to the water system and sewer system totaled \$27.5 million. The Cemetery Area Water Line project was completed, along with the Southwest Sewer project. The San Elijo Outfall project was also completed from the regulator to the beach.

CITY OF ESCONDIDO
Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City has total bonded debt outstanding of \$158,320,000. 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	
	2018	2017	2018	2017	2018	2017
Certificates of participation	\$ -	\$ -	\$ 25,255	\$ 25,875	\$ 25,255	\$ 25,875
Revenue bonds	-	-	70,635	72,740	70,635	72,740
Lease revenue bonds	3,750	3,980	-	-	3,750	3,980
GO bonds	58,680	60,460	-	-	58,680	60,460
Total	\$ 62,430	\$ 64,440	\$ 95,890	\$ 98,615	\$ 158,320	\$ 163,055

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

Economic Factors and Next Year's Budgets and Rates

The fiscal year 2018-19 General Fund operating budget has been balanced without relying on the use of reserves for the eighth year in a row. Available General Fund resources are anticipated to be \$107 million in fiscal year 2018-19 which represents an increase of \$2.6 million or 3 percent over the fiscal year 2017-18 amended revenue projection.

Sales tax is the largest General Fund revenue source at 38 percent of total revenue. Sales tax revenue is projected to grow in fiscal year 2018-19 by 3 percent. This increase is based primarily on projected growth in construction of 5 percent as well as projected growth in sales tax collected from equipment and vehicle leasing, at 7 percent.

Property tax revenue is projected to increase by 3 percent, with projected revenue of \$13.1 million. The major factors influencing property tax revenue are the California Consumer Price Index (CCPI), number of home sales, and increased median home prices.

Public safety continues as Escondido's highest priority. Public Safety is the largest component of the General Fund, comprising approximately 66%. The Police budget reflects an increase of 4.9% and the Fire Budget reflects an increase of 3.3%.

Retirement rates continue to represent one of the most significant citywide budgetary pressures. It is projected that CalPERS contributions will be 18% of total General Fund uses in 2018-19 leaving 82% for all other General fund uses. This projection is expected to grow to 28% in ten years, reducing the amount available for all other General Fund uses down to 72%. This will have a significant impact on General Fund services.

The City's fiscal year 2018-19 budget is available online at the City's website, www.escondido.org.

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 and to demonstrate the city's accountability for the money it receives. 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, or online at www.escondido.org.



Basic Financial Statements

CITY OF ESCONDIDO
Statement of Net Position
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	California Center for the Arts, Escondido Foundation
ASSETS				
Cash and investments	\$ 78,704,012	\$ 65,786,923	\$ 144,490,935	\$ 1,950,702
Receivables, net of allowances	24,288,145	13,336,167	37,624,312	245,379
Loans receivable	54,138,030	492,878	54,630,908	10,711
Due from Successor Agency	18,981,545	-	18,981,545	-
Internal balances	395,251	(395,251)	-	-
Due from other governments	3,207,609	-	3,207,609	-
Inventory, at cost	444,576	5,155	449,731	27,653
Deposits	413,535	-	413,535	-
Prepaid expenses	18,858	-	18,858	136,774
Prepaid bond insurance	-	99,180	99,180	-
Land held for resale	2,052,117	-	2,052,117	-
Assets held in charitable remainder	-	-	-	94,643
Restricted assets:				
Investment in Section 115 Trust	1,989,784	-	1,989,784	-
Cash and investments with fiscal agent	22	3,642,092	3,642,114	-
Capital assets:				
Not being depreciated	79,755,265	68,559,848	148,315,113	-
Being depreciated, net	215,548,572	233,736,475	449,285,047	146,335
Total Assets	479,937,321	385,263,467	865,200,788	2,612,197
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	52,935,883	9,872,517	62,808,400	-
Deferred loss on refundings	41,524	2,067,374	2,108,898	-
Total Deferred Outflows of Resources	52,977,407	11,939,891	64,917,298	-

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Net Position (Continued)
June 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	California Center for the Arts, Escondido Foundation
LIABILITIES				
Accounts payable	3,091,134	7,891,673	10,982,807	140,637
Retentions payable	286,272	8,187,258	8,473,530	-
Accrued interest payable	1,072,310	1,497,530	2,569,840	-
Deposits payable	3,454,988	752,251	4,207,239	-
Accrued expenses	2,877,365	507,828	3,385,193	186,924
Due to other governments	469,988	-	469,988	-
Unearned revenue	460,448	-	460,448	713,163
Aggregate net pension liability	209,417,572	42,507,269	251,924,841	-
Long-term debt:				
Due within one year	7,969,979	5,327,496	13,297,475	42,553
Due in more than one year	91,069,536	121,528,808	212,598,344	79,028
Total Liabilities	320,169,592	188,200,113	508,369,705	1,162,305
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	707,080	302,341	1,009,421	-
Deferred gain on refundings	385,950	-	385,950	-
Total Deferred Inflows of Resources	1,093,030	302,341	1,395,371	-
NET POSITION				
Net investment in capital assets	218,992,174	183,764,968	402,757,142	146,335
Restricted for:				
General government	6,828,457	-	6,828,457	-
Low and moderate income housing	75,731,903	-	75,731,903	-
Community services	4,703,405	-	4,703,405	-
Debt service	3,070,923	3,642,092	6,713,015	-
Capital projects	1,813,807	-	1,813,807	-
Public safety	339,088	-	339,088	-
Public works	10,367,137	-	10,367,137	-
Investment in Section 115 Trust	1,997,186	-	1,997,186	-
Total restricted net position	104,851,906	3,642,092	108,493,998	-
Unrestricted (deficit)	(112,191,974)	21,293,844	(90,898,130)	1,303,557
Total net position	\$ 211,652,106	\$ 208,700,904	\$ 420,353,010	\$ 1,449,892

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 11,319,840	\$ 681,369	\$ 348,590	\$ 2,615,756
Public safety	80,848,786	11,190,662	2,192,482	-
Community services	13,453,775	3,634,653	3,172,984	2,616,365
Public works	25,876,603	1,738,505	4,266,482	4,332,678
Community development	5,516,258	1,763,863	-	-
Interest and fiscal charges	2,849,950	-	-	-
Total Governmental Activities	139,865,212	19,009,052	9,980,538	9,564,799
Business-type activities:				
Water	62,431,613	61,551,122	-	382,326
Wastewater	32,843,118	34,464,076	143,298	7,846,908
Total Business-type Activities	95,274,731	96,015,198	143,298	8,229,234
Total Primary Government	\$ 235,139,943	\$ 115,024,250	\$ 10,123,836	\$ 17,794,033
Component Unit:				
California Center for the Arts, Escondido Foundation	\$ 11,575,548	\$ 4,714,480	\$ 6,640,490	\$ -

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Activities (Continued)
For the Year Ended June 30, 2018

Functions/Programs	Net (Expense) Revenue and Changes in Net Position			Component Unit California Center for the Arts, Escondido Foundation
	Primary Government		Total	
	Governmental Activities	Business-type Activities		
Primary Government:				
Governmental Activities:				
General government	\$ (7,674,125)	\$ -	\$ (7,674,125)	\$ -
Public safety	(67,465,642)	-	(67,465,642)	-
Community services	(4,029,773)	-	(4,029,773)	-
Public works	(15,538,938)	-	(15,538,938)	-
Community development	(3,752,395)	-	(3,752,395)	-
Interest and fiscal charges	(2,849,950)	-	(2,849,950)	-
Total Governmental Activities	(101,310,823)	-	(101,310,823)	-
Business-type activities:				
Water	-	(498,165)	(498,165)	-
Wastewater	-	9,611,164	9,611,164	-
Total Business-type Activities	-	9,112,999	9,112,999	-
Total Primary Government	(101,310,823)	9,112,999	(92,197,824)	-
Component Unit:				
California Center for the Arts, Escondido Foundation	-	-	-	(220,578)
General Revenues:				
Sales tax	42,100,337	-	42,100,337	-
Property tax	33,109,198	-	33,109,198	-
Franchise tax	6,673,212	-	6,673,212	-
Transient occupancy tax	1,765,478	-	1,765,478	-
Business license tax	1,827,652	-	1,827,652	-
Transfer station tax	671,054	-	671,054	-
Refuse collection tax	88,447	-	88,447	-
Investment earnings	4,903,198	1,350,539	6,253,737	101,968
Gain on sale of capital assets	1,449,580	-	1,449,580	-
Miscellaneous	559,798	176,866	736,664	134,794
Total general revenues	93,147,954	1,527,405	94,675,359	236,762
Transfers	50,000	(50,000)	-	-
Total general revenues and transfers	93,197,954	1,477,405	94,675,359	236,762
Change in net position	(8,112,869)	10,590,404	2,477,535	16,184
Net position:				
Beginning of year	219,764,975	198,110,500	417,875,475	1,433,708
End of year	<u>\$ 211,652,106</u>	<u>\$ 208,700,904</u>	<u>\$ 420,353,010</u>	<u>\$ 1,449,892</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds			Total Governmental Funds
	General	Successor Agency Housing	Nonmajor Governmental Funds	
ASSETS				
Cash and investments	\$ 17,670,260	\$ 4,713,763	\$ 30,052,306	\$ 52,436,329
Receivables (net):				
Accounts	2,861,691	-	125,511	2,987,202
Interest	119,152	8,606,310	5,054,867	13,780,329
Taxes	7,343,235	-	37,746	7,380,981
Loans	200,000	36,140,109	17,797,921	54,138,030
Due from other governments	369,098	-	2,838,511	3,207,609
Due from Successor Agency	17,977,592	-	1,003,953	18,981,545
Due from other funds	319,675	-	-	319,675
Inventory, at cost	-	-	14,325	14,325
Prepaid expenditures	-	-	18,858	18,858
Deposits	-	-	100,935	100,935
Land held for resale	-	2,052,117	-	2,052,117
Advances to other funds	159,250	-	290,000	449,250
Restricted assets:				
Cash and investments	1,989,784	-	-	1,989,784
Cash and investments with fiscal agent	-	-	22	22
Total Assets	\$ 49,009,737	\$ 51,512,299	\$ 57,334,955	\$ 157,856,991
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,079,577	\$ 8,783	\$ 1,103,635	\$ 2,191,995
Deposits payable	901,212	9,415	2,544,361	3,454,988
Retentions payable	-	-	286,272	286,272
Accrued expenditures	2,621,250	8,842	87,236	2,717,328
Due to other funds	-	-	144,437	144,437
Due to other governments	-	-	469,988	469,988
Unearned revenue	40,844	-	419,604	460,448
Advances from other funds	290,000	-	159,250	449,250
Total Liabilities	4,932,883	27,040	5,214,783	10,174,706
Deferred Inflows of Resources:				
Unavailable revenue	10,093,054	8,584,996	7,485,429	26,163,479
Total Deferred Inflows of Resources	10,093,054	8,584,996	7,485,429	26,163,479
Fund Balances:				
Nonspendable	9,991,902	-	373,620	10,365,522
Restricted	1,997,186	42,900,263	44,910,901	89,808,350
Committed	17,392,319	-	698,161	18,090,480
Assigned	1,762,773	-	-	1,762,773
Unassigned (deficit)	2,839,620	-	(1,347,939)	1,491,681
Total Fund Balances	33,983,800	42,900,263	44,634,743	121,518,806
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 49,009,737	\$ 51,512,299	\$ 57,334,955	\$ 157,856,991

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Fund balances for governmental funds		\$ 121,518,806
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.		
Amount reported in government-wide statement of net position:		
Capital assets, not being depreciated	\$ 79,755,265	
Capital assets, being depreciated, net	215,548,572	
Less: amount reported in internal services fund	(8,352,613)	286,951,224
A portion of the unavailable revenue is not available to pay for current-period expenditures and, therefore, is not recognized in the funds.		
		26,163,479
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.		
Total internal service fund net position	\$ 7,866,322	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	395,251	8,261,573
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	\$ (6,535,150)	
Claims payable	(16,823,400)	
Loans	(3,085,997)	
Leases	(2,348,520)	
Bonds	(62,430,000)	
Bond premium	(7,823,417)	
Bond discount	6,969	
Deferred gain on refunding	(385,950)	
Deferred loss on refunding	41,524	
Less: amount reported in internal services fund	17,996,110	(81,387,831)
Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds. The net pension liability allocated from internal service funds are included in the internal service fund adjustment above.		
Aggregate net pension liability	(209,417,572)	
Less: amount reported in internal services fund	10,665,448	(198,752,124)
Deferred outflows and deferred inflows of resources related to pensions are not available for current period and, therefore, are deferred in the governmental funds or not recorded in the governmental funds		
Deferred outflows of resources related to pensions	52,935,883	
Deferred inflows of resources related to pensions	(707,080)	
Less: amount reported in internal services fund	(2,259,514)	49,969,289
Interest payable on noncurrent liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
		(1,072,310)
Net position of governmental activities		\$ 211,652,106
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, 2018

	Major Funds			Total Governmental Funds
	General Fund	Successor Agency Housing	Nonmajor Governmental Funds	
Revenues:				
Sales tax	\$ 36,573,403	\$ -	\$ -	\$ 36,573,403
Property taxes	26,661,521	-	-	26,661,521
Other taxes	12,742,188	-	10,269,266	23,011,454
Licenses and permits	1,183,587	-	-	1,183,587
Fines and forfeits	1,076,387	-	-	1,076,387
Intergovernmental	3,701,387	146,052	13,243,926	17,091,365
Charges for services	12,094,445	-	4,210,916	16,305,361
Special assessments	-	-	797,529	797,529
Lease income	3,786,764	164,328	-	3,951,092
Investment income	11,194	208,006	262,533	481,733
Miscellaneous	342,966	85,698	39,246	467,910
Total Revenues	98,173,842	604,084	28,823,416	127,601,342
Expenditures:				
Current:				
General government	6,075,646	-	136,550	6,212,196
Public safety	66,210,522	-	1,707,047	67,917,569
Public works	12,198,345	-	7,822,477	20,020,822
Community services	9,258,902	-	2,837,570	12,096,472
Community development	4,017,640	455,160	471,688	4,944,488
Capital outlay	-	-	10,522,490	10,522,490
Debt service:				
Principal retirements	538,955	-	2,077,263	2,616,218
Interest and fiscal charges	109,682	-	3,107,057	3,216,739
Total Expenditures	98,409,692	455,160	28,682,142	127,546,994
Excess (Deficiency) of Revenues Over Expenditures	(235,850)	148,924	141,274	54,348
Other Financing Sources (Uses):				
Sale of capital assets	1,724,580	-	-	1,724,580
Debt issuance	2,095,893	-	-	2,095,893
Transfers in	2,491,538	25,000	3,098,755	5,615,293
Transfers (out)	(3,259,613)	-	(2,589,635)	(5,849,248)
Total Other Financing Sources (Uses)	3,052,398	25,000	509,120	3,586,518
Net Change in Fund Balance	2,816,548	173,924	650,394	3,640,866
Fund Balances:				
Beginning of Year	31,167,252	42,726,339	43,984,349	117,877,940
End of Year	\$ 33,983,800	\$ 42,900,263	\$ 44,634,743	\$ 121,518,806

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds: \$ 3,640,866

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	\$ 10,522,490	
Depreciation, net of \$3,340,659 from Internal Service Funds	(12,754,814)	
Contributed capital assets	949,095	
Sale of city property	(275,000)	
Capital assets contributed to business-type activities	<u>76,044</u>	
		(1,482,185)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 2,062,094

Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The net revenue of internal service funds was reported with governmental activities.

Total internal service fund net position	\$ (1,535,747)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>303,611</u>	
		\$ (1,232,136)

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	\$ 166,749	
Change in pension liability	(12,193,934)	
Principal retirements	2,616,218	
Issuance of debt	(2,095,893)	
Accrued interest	<u>405,352</u>	
		<u>(11,101,508)</u>

Change in net position of governmental activities **\$ (8,112,869)**

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Net Position
Proprietary Funds
June 30, 2018

	Major Funds			Governmental
	Water	Wastewater	Total	Internal
	Water	Wastewater	Total	Service Funds
ASSETS				
Current Assets:				
Cash and investments	\$ 28,216,593	\$ 37,570,330	\$ 65,786,923	\$ 26,267,683
Receivables (Net):				
Accounts	10,412,672	2,634,973	13,047,645	25,218
Interest	113,267	175,255	288,522	114,415
Loans	-	61,041	61,041	-
Inventory	-	5,155	5,155	430,251
Deposits	-	-	-	312,600
Total Current Assets	38,742,532	40,446,754	79,189,286	27,150,167
Noncurrent Assets:				
Restricted cash and investments	45,003	3,597,089	3,642,092	-
Loans receivables	-	431,837	431,837	-
Prepaid bond insurance	99,180	-	99,180	-
Capital assets:				
Not being depreciated	36,178,186	32,381,662	68,559,848	-
Being depreciated, net	89,872,224	143,864,251	233,736,475	8,352,613
Total Noncurrent Assets	126,194,593	180,274,839	306,469,432	8,352,613
Total Assets	164,937,125	220,721,593	385,658,718	35,502,780
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	4,685,276	5,187,241	9,872,517	2,334,460
Deferred loss on refundings	833,443	1,233,931	2,067,374	-
Total Deferred Outflows of Resources	5,518,719	6,421,172	11,939,891	2,334,460

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Net Position (Continued)
Proprietary Funds
June 30, 2018

	Major Funds		Total	Governmental Activities
	Water	Wastewater		Internal Service Funds
LIABILITIES				
Current Liabilities:				
Accounts payable	4,532,193	3,359,480	7,891,673	899,139
Retention payable	8,088,340	98,918	8,187,258	-
Accrued expenses	260,268	247,560	507,828	160,037
Due to other funds	-	-	-	175,238
Accrued interest	845,802	651,728	1,497,530	-
Long-term debt, due within one year	1,585,296	3,742,200	5,327,496	3,657,473
Total Current Liabilities	15,311,899	8,099,886	23,411,785	4,891,887
Noncurrent Liabilities:				
Deposits payable	608,180	144,071	752,251	-
Aggregate net pension liabilities	19,882,564	22,624,705	42,507,269	10,665,448
Long-term debt, due in more than one year	66,559,144	54,969,664	121,528,808	14,338,637
Total Noncurrent Liabilities	87,049,888	77,738,440	164,788,328	25,004,085
Total Liabilities	102,361,787	85,838,326	188,200,113	29,895,972
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	136,580	165,761	302,341	74,946
Total Deferred Inflows of Resources	136,580	165,761	302,341	74,946
NET POSITION				
Net investment in capital assets	60,541,689	123,223,279	183,764,968	7,812,871
Unrestricted	7,415,788	17,915,399	25,331,187	53,451
Total Net Position	\$ 67,957,477	\$ 141,138,678	209,096,155	\$ 7,866,322
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			(395,251)	
Net position of business-type activities			<u>\$ 208,700,904</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, 2018

	Business-Type Activities			Governmental
	Water	Wastewater	Total	Activities Internal Service Funds
	Water	Wastewater	Total	Funds
Operating Revenues:				
Charges for services	\$ 59,696,574	\$ 34,464,076	\$ 94,160,650	\$ 31,288,592
Total Operating Revenues	59,696,574	34,464,076	94,160,650	31,288,592
Operating Expenses:				
Personnel services	11,969,610	11,989,770	23,959,380	5,692,268
Purchased water	27,511,621	-	27,511,621	-
Administrative expenses	6,192,917	1,891,816	8,084,733	1,994,963
Benefit claims	-	-	-	2,894,845
Supplies	2,268,038	1,244,267	3,512,305	358,352
Repairs and maintenance	1,816,827	2,176,357	3,993,184	1,268,839
Depreciation	4,132,922	5,634,302	9,767,224	3,340,659
Utilities	3,192,497	3,080,164	6,272,661	1,409,770
Fuel	-	-	-	1,004,497
Professional services	999,452	3,210,430	4,209,882	4,403,878
Insurance premiums	541,170	454,515	995,685	10,602,644
Rent	367,524	371,531	739,055	1,879
Other	577,476	447,090	1,024,566	651,464
Total Operating Expenses	59,570,054	30,500,242	90,070,296	33,624,058
Operating Income (Loss)	126,520	3,963,834	4,090,354	(2,335,466)

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Revenues, Expenses, and Changes in Fund Net Position (Continued)
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities			Governmental
	Water	Wastewater	Total	Activities Internal Service Funds
	Water	Wastewater	Total	Funds
Nonoperating Revenues (Expenses):				
Investment income	(50,968)	149,920	98,952	81,118
Rents and concessions	1,160,002	-	1,160,002	-
Intergovernmental	382,326	4,185,845	4,568,171	-
Interest and fiscal charges	(2,625,313)	(2,240,041)	(4,865,354)	(38,564)
Settlements	(35,470)	-	(35,470)	-
Miscellaneous	130,079	138,372	268,451	323,787
Total Nonoperating Revenues (Expenses)	(1,039,344)	2,234,096	1,194,752	366,341
Income Before Transfers and Capital Contributions	(912,824)	6,197,930	5,285,106	(1,969,125)
Transfers in	-	-	-	360,000
Transfers (out)	(12,500)	(37,500)	(50,000)	(76,045)
Capital Contributions:				
Connection fees	1,854,548	3,804,361	5,658,909	-
Developer contributions	-	-	-	149,423
Total Transfers and Capital Contributions	1,842,048	3,766,861	5,608,909	433,378
Changes in Net Position	929,224	9,964,791	10,894,015	(1,535,747)
Net Position at Beginning of Year	67,028,253	131,173,887	198,202,140	9,402,069
Net Position at End of Year	\$ 67,957,477	\$ 141,138,678	\$ 209,096,155	\$ 7,866,322
Change in Net Position			\$ 10,894,015	
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			(303,611)	
Change in net position of business-type activities			<u>\$ 10,590,404</u>	

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities			Governmental
	Water	Wastewater	Total	Activities Internal Service Funds
Cash Flows from Operating Activities:				
Cash received from customers	\$ 57,893,055	\$ 33,573,417	\$ 91,466,472	\$ 31,305,172
Cash paid to employees for services	(10,370,785)	(10,596,607)	(20,967,392)	(7,150,904)
Cash paid to suppliers for goods or services	(36,628,909)	(11,220,759)	(47,849,668)	-
Cash for rents and concessions	1,160,002	-	1,160,002	(22,036,842)
Cash from other sources	130,079	195,866	325,945	323,787
Net Cash Provided by Operating Activities	<u>12,183,442</u>	<u>11,951,917</u>	<u>24,135,359</u>	<u>2,441,213</u>
Cash Flows from Noncapital Financing Activities:				
Cash paid to other funds	(12,500)	(37,500)	(50,000)	459,193
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(12,500)</u>	<u>(37,500)</u>	<u>(50,000)</u>	<u>459,193</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase and construction of capital assets	(8,808,308)	(15,960,352)	(24,768,660)	(1,726,913)
Construction in progress reimbursement	382,325	4,185,845	4,568,170	-
Payments on connection rights	1,809,328	3,760,617	5,569,945	-
Settlement payments	(4,146,232)	-	(4,146,232)	-
Capital lease payment	-	-	-	(190,374)
Principal payments on bonds	(1,140,000)	(1,585,000)	(2,725,000)	-
Interest payments on bonds	(2,566,241)	(1,994,316)	(4,560,557)	-
Principal payments on loans	(224,912)	(1,929,935)	(2,154,847)	(91,059)
Interest payments on loans	(73,755)	(386,726)	(460,481)	(18,127)
Net Cash (Used in) Capital and Related Financing Activities	<u>(14,767,795)</u>	<u>(13,909,867)</u>	<u>(28,677,662)</u>	<u>(2,026,473)</u>
Cash Flows from Investing Activities:				
Investment income received	(95,825)	130,857	35,032	48,992
Net Cash Provided by (Used for) Investing Activities	<u>(95,825)</u>	<u>130,857</u>	<u>35,032</u>	<u>48,992</u>
Net increase (decrease) in cash and cash equivalents	(2,692,678)	(1,864,593)	(4,557,271)	922,925
Cash and cash equivalents:				
Beginning of year	30,954,274	43,032,012	73,986,286	25,344,758
End of year	<u>\$ 28,261,596</u>	<u>\$ 41,167,419</u>	<u>\$ 69,429,015</u>	<u>\$ 26,267,683</u>
Reconciliation of Cash Equivalents to the Statement of Net Position:				
Cash and investments	\$ 28,216,593	\$ 37,570,330	\$ 65,786,923	\$ 26,267,683
Restricted cash and investments	45,003	3,597,089	3,642,092	-
Total cash and cash equivalents	<u>\$ 28,261,596</u>	<u>\$ 41,167,419</u>	<u>\$ 69,429,015</u>	<u>\$ 26,267,683</u>

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Business-Type Activities			Governmental
	Water	Wastewater	Total	Activities Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	\$ 126,520	\$ 3,963,834	\$ 4,090,354	\$ (2,335,466)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	4,132,922	5,634,302	9,767,224	3,340,659
Pension expense	1,500,435	1,397,232	2,897,667	523,511
Cash from rent and concessions	1,160,002	-	1,160,002	-
Cash from other sources	130,079	138,372	268,451	323,787
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:				
Accounts receivable	(1,902,562)	(894,464)	(2,797,026)	16,580
Inventories	-	(5,155)	(5,155)	(35,805)
Prepaid items	-	3,805	3,805	-
Loans receivable	-	57,494	57,494	-
Accounts payable	(1,249,727)	1,921,152	671,425	148,679
Retentions payable	8,088,340	(260,586)	7,827,754	-
Accrued expenses	32,509	16,679	49,188	4,778
Compensated absences	65,881	(20,748)	45,133	(1,510)
Customer deposits	99,043	-	99,043	-
Estimated claims payable	-	-	-	456,000
Total adjustments	12,056,922	7,988,083	20,045,005	4,776,679
Net Cash Provided by Operating Activities	\$ 12,183,442	\$ 11,951,917	\$ 24,135,359	\$ 2,441,213
Noncash Investing, Capital and Financing Activities:				
Contributed property, plant and equipment	\$ 76,045	\$ -	\$ 76,045	\$ 149,423
Bond amortization	63,445	271,731	335,176	-
Total noncash investing, capital and financing activities	\$ 139,490	\$ 271,731	\$ 411,221	\$ 149,423

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Agency Funds	Private Purpose Trust Fund Successor Agency of the Former CDC
ASSETS		
Cash and investments	\$ 11,936,893	\$ 10,498,636
Cash and investments with fiscal agent	674,138	-
Receivables:		
Interest	4,389	32,819
Taxes	12,284	-
Loans	-	245,424
Prepaid bond insurance	-	15,871
Due from other governments	-	469,988
Total Assets	\$ 12,627,704	11,262,738
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt		20,362
Total Deferred Outflows of Resources		20,362
LIABILITIES		
Accounts payable	\$ 68,099	-
Deposits payable	10,623,870	-
Due to bondholders	1,935,735	-
Interest payable	-	121,446
Long-term liabilities:		
Due within one year	-	11,867,359
Due in more than one year	-	14,286,317
Total Liabilities	\$ 12,627,704	26,275,122
NET POSITION		
Held in trust for other purposes		(14,992,022)
Total Net Position		\$ (14,992,022)

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

	<u>Private Purpose Trust Fund Successor Agency of the Former CDC</u>
ADDITIONS:	
Taxes	\$ 8,685,838
Interest and change in fair value of investments	<u>102,570</u>
Total Additions	<u>8,788,408</u>
DEDUCTIONS:	
Administrative expenses	324,280
Interest expense	<u>634,017</u>
Total Deduction	<u>958,297</u>
Changes in Net Position	7,830,111
NET POSITION:	
Beginning of year	<u>(22,822,133)</u>
End of year	<u><u>\$ (14,992,022)</u></u>

See Accompanying Notes to Basic Financial Statements.

CITY OF ESCONDIDO
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (“GASB”) commonly referred to as accounting principles generally accepted in the United States of America (“U.S. GAAP”). GASB is the accepted standard-setting body for establishing government accounting and financial reporting standards.

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 U. S. GAAP, the financial statements present the government and its component units for which the government is considered financially accountable. The inclusion of an organization within the scope of the reporting entity of the City of Escondido is based on the provisions of GASB Statement No. 14 and amended with GASB Statement No. 61. The following criteria were used in the determination of the blended component units:

- The members of the City Council also act as the governing body of the Escondido Vehicle Parking District (District) and the Escondido Joint Power Financing Authority (Authority).
- The District and the Authority are managed by employees of the City.
- The District and the Authority are financially interdependent. They provide financial benefit/burden to 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 Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (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 governing board elected separately from the City. It is included as a discretely presented component unit because the Foundation is fiscally dependent on the City; the City has assumed the obligation to provide financial support to the organization including the Center's management fee, facility, and additional funding as needed based on annual operations. The City issued bonds in 1992 for the construction of the facility and was obligated for those payments. In addition, all land and buildings used by the Foundation is legally owned by the City. 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. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained in accordance with legal and managerial requirements.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Government - Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Government - Wide Financial Statements (Continued)

These financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Position, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Advances to/from other funds
- Transfers in/out

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in Net Position as presented in these statements to the Net Position presented in the Government-Wide Financial Statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Governmental Fund Financial Statements (Continued)

Revenues are recognized as soon as they are both “measurable” and “available”. Revenues are considered to be available when they are collectible within the current period as soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences.

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.

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 Recognized Obligation Payment Schedules. Other resources are received through loan repayments.

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major Proprietary Fund.

A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements. The City’s internal service funds include seven individual funds, which provide services directly to other City funds. These areas of service include Building Maintenance, Vehicle and Equipment Maintenance, Central Services, Office Automation, Workers’ Compensation, General Liability Self-Insurance, and Insurance.

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary Fund Financial Statements (Continued)

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

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.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position and a Statement of Changes in Fiduciary Net Position. The City's fiduciary funds represent agency funds and private purpose trust funds. Both agency funds and the private purpose trust funds are accounted for on the full accrual basis of accounting.

Fiduciary fund types are accounted for according to the nature of the fund.

The City's Agency funds (Hidden Trails Community Facilities District, Eureka Ranch Community Facilities District, Auto Parkway Assessment District, Rancho San Pasqual, and Deposit Trust) 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. These funds are purely custodial in nature (assets equal liabilities) and thus do not involve measurement of results of operations.

The City elected to serve as the successor agency for its former redevelopment agency, which was dissolved by state law. The successor agency activity is accounted for in a private purpose trust fund used by the City to account for assets, liabilities and activities of the Successor Agency to 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.

C. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments (Continued)

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The statement of cash flows requires presentation of “cash and cash equivalents”. For the purposes of the statement of cash flows, the City considers all proprietary fund pooled cash and investments as “cash and cash equivalents”, as such, funds are available to the various funds as needed.

Certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentration of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

U. S. GAAP defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position or Balance Sheet, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, which are observable for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

D. 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.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Interfund Transactions

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.

F. Due From Other Governments

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 at year end.

G. Property Taxes

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.

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.

H. 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.

I. Land Held for Resale

Land held for resale is valued at lower of cost or net realizable value. The reported amount is classified as restricted net position in the low and moderate income housing fund and the County Transportation Street Projects Fund since the proceeds from the sale of the land held for resale will be restricted for a specific purpose. 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.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

J. 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. Donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. 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.

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

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City defines infrastructure as the basic physical assets that allow the City to function. The assets include the streets, water purification and distribution system, sewer collection and treatment system, parks and recreation, lands and improvement system, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

K. Compensated Absences – 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 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 basic financial statements.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Compensated Absences – Employee Leave Benefits (Continued)

In government-wide financial statements and the proprietary fund financial statements, compensated absences are recorded as expenses and liabilities as incurred.

In governmental fund financial statements, compensated absences are recorded as expenditures in the years paid, as it is the City's policy to liquidate any unpaid vacation or sick leave at year-end from future resources rather than currently available and expendable resources. The General Fund is typically used to liquidate compensated absences.

The California Center for the Arts, Escondido Foundation (Foundation) provides Paid Time Off (PTO) benefits to all full-time employees. The accrual begins immediately upon hire and is determined based on length of employment, employees earn approximately 10-25 days of PTO. The Foundation allows employees to carry over all accrued available PTO to the following calendar year, and upon termination, is mandated to compensate employees for all earned but unused vacation days. Part time employees accrue one hour of sick time for every 30 hours worked. The Foundation allows employees to carry over all accrued paid sick days to the following calendar year of employment. Paid sick accrues until it reaches a maximum cap of 48 hours. Upon termination, employees are not compensated for unused paid sick time.

L. Long-Term Debt

Government-Wide Financial Statements and Proprietary Fund Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate funds. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are expensed when incurred. Gains or losses on bond refunding are reported as either deferred outflows of resources or deferred inflows of resources and amortized over the term of the related debt.

Governmental Fund Financial Statements

The governmental fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position. 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.

M. 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.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

N. Unearned Revenues

Unearned revenue recorded in the Government-Wide Statement of Net Position for governmental activities and the governmental fund financial statements consist of federal and state capital grants, representing voluntary nonexchange transactions, for which advance payments have been received from the provider for which eligibility requirements, other than timing requirements, have not been satisfied.

Unearned revenue recorded in the Government-Wide Statement of Net Position for business-type activities and the proprietary fund financial statements generally consist of program fees collected from customers prior to the statement of net position date for recreation programs that begin in the next fiscal year or donations for capital or work projects, for which the related expenses have not yet been incurred.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 13). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

CalPERS:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

P. Net Position

In governmental-wide and proprietary fund financial statements, net position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

P. Net Position (Continued)

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Q. Fund Balance

In governmental fund financial statements, fund balances are categorized as follows:

Nonspendable – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body and that remain binding unless removed in the same manner. Adoption of a resolution by the City Council is required to commit resources or rescind the commitment. The action that constitutes the most binding constraint (i.e. ordinance) of the City’s highest level of decision-making authority, City Council, commits fund balance for specific purposes. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government’s intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The Administrative Services Director is authorized to assign amounts to a specific purpose, which was established by the governing body by resolution.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

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. City Council also committed a portion of fund balance to be used for future PERS expenditures. City Council action is required to add or spend the funds. At June 30, 2018, the balance totaled \$17,921,319.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 1 – Summary of Significant Accounting Policies (Continued)

R. Spending Policy

Government-Wide Financial Statements and the Proprietary Fund Financial Statements

When an expense is incurred for purposes for which both restricted and unrestricted Net Position are available, the City's policy is to apply restricted Net Position first.

Governmental Fund Financial Statements

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned.

S. Implementation of New GASB Pronouncements

During the fiscal year ended June 30, 2018, the City implemented the following Governmental Accounting Standards Board (GASB) standards:

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement did not have a significant effect on the City's financial statements.

GASB Statement No. 81 – In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement did not have a significant effect on the City's financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement also addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Application of this statement did not have a significant effect on the City's financial statements.

GASB Statement No. 86 – In April 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Application of this statement did not have a significant effect on the City's financial statements.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 2 – Stewardship, Compliance and Accountability

A. Excess of Expenditures Over Appropriations

There was no excess of expenditures over appropriations for the year ended June 30, 2018.

B. Deficit Fund Equity

The following fund reported a deficit fund balance/net position as of June 30, 2018:

Fund	Fund Type	Amount
Government wide Statement of Net Position	Governmental Activities	\$ (112,741,040)
Law Enforcement	Special Revenue Fund	(218,385)
Vehicle Parking District	Special Revenue Fund	(624,060)
County Transportation Street Projects	Capital Project Fund	(505,494)
Building Maintenance	Internal Service Fund	(2,733,106)
Office Automation	Internal Service Fund	(1,567,487)
Workers' Compensation	Internal Service Fund	(5,733,141)

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

Note 3 – Cash and Investments

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-type Activities	Component Unit	Fiduciary Funds	Total
Cash and investments	\$ 78,704,012	\$ 65,786,923	\$ 1,950,702	\$ 22,435,529	\$ 168,877,166
Investment in Section 115 Trust	1,989,784	-	-	-	1,989,784
Cash and investments with fiscal agent	22	3,642,092	-	674,138	4,316,252
Total	\$ 80,693,818	\$ 69,429,015	\$ 1,950,702	\$ 23,109,667	\$ 175,183,202

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 3 – Cash and Investments (Continued)

At June 30, 2018, cash and investments, including cash and investments with fiscal agent, are reported at fair value. The following table presents the fair value measurements of the investments recognized in the accompanying statement of net position and balance sheet measured at fair value on a recurring basis and the levels within GASB 72 fair value hierarchy in which fair value measurement fall at June 30, 2018:

	Fair Value	Measurement Input			Exempt
		Level 1	Level 2	Level 3	
Cash on hand	\$ 12,000	\$ -	\$ -	\$ -	\$ 12,000
Demand deposits	6,219,282	-	-	-	6,219,282
Investments:					
U. S. Treasury Obligations	987,580	-	987,580	-	-
U. S. Corporate Bonds	15,769,626	-	15,769,626	-	-
U. S. Municipal Bonds	7,521,463	-	7,521,463	-	-
Federal Agency Securities	77,272,743	-	77,272,743	-	-
Money Market Funds	1,063,163	-	-	-	1,063,163
Negotiable Certificates of Deposit	7,291,082	-	7,291,082	-	-
State Investment Pool (LAIF)	52,740,227	-	-	-	52,740,227
Subtotal	162,645,884	-	108,842,494	-	53,803,390
Held by fiscal agent:					
Money Market Funds	1,473,252	-	1,473,252	-	-
State Investment Pool (LAIF)	2,843,000	-	-	-	2,843,000
Subtotal	4,316,252	-	1,473,252	-	2,843,000
Investment in Section 115 Trust	1,989,784	-	-	-	1,989,784
Total	\$ 175,183,202	\$ -	\$ 110,315,746	\$ -	\$ 64,867,456

A. Demand Deposits

The carrying amount of the City's cash deposits were \$6,219,282 at June 30, 2018. Bank balances before reconciling items were \$7,185,125 at that date, the total amount of which was insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name. The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 3 – Cash and Investments (Continued)

B. Investments

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 Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 3 – Cash and Investments (Continued)

B. 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	*Maximum Investment in One Issuer
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

C. Investments in Local Agency Investment Fund

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments in LAIF included a portion of pool funds invested in Structure Notes and Asset-Backed Securities:

Structured Notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2018, the City had \$55,583,227 invested in LAIF, which had invested 2.89% of the pool investment funds in Structured Notes and Asset-Back Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The credit quality rating of LAIF is unrated as of June 30, 2018. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures

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	Fair Value	Remaining Maturity in Months		
		18 Months or Less	18 to 42 Months	42 to 60 Months
Investments:				
U. S. Treasury Obligations	\$ 987,580	\$ 987,580	\$ -	\$ -
U. S. Corporate Bonds	15,769,626	9,773,757	-	5,995,869
U. S. Municipal Bonds	7,521,463	-	959,438	6,562,025
Federal Agency Securities	77,272,743	24,889,746	41,681,067	10,701,930
Money Market Funds	1,063,163	1,063,163	-	-
Negotiable Certificates of Deposit	7,291,082	4,407,019	1,929,955	954,108
State Investment Pool (LAIF)	52,740,227	52,740,227	-	-
Subtotal	162,645,884	93,861,492	44,570,460	24,213,932
Held by fiscal agent:				
Money Market Funds	1,473,252	1,473,252	-	-
State Investment Pool (LAIF)	2,843,000	2,843,000	-	-
Subtotal	4,316,252	4,316,252	-	-
Investment in Section 115 Trust	1,989,784	1,989,784	-	-
Total	\$ 168,951,920	\$ 100,167,528	\$ 44,570,460	\$ 24,213,932

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, by Moody's or Standards and Poor, as of yearend for each investment type.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures

Disclosures Relating to Credit Risk (Continued)

Investment Type	Fair Value	Minimum Legal Rating	Exempt from Disclosures	Rating as of Year End				
				AAA/Aaa	AA+/Aa1	AA to AA- / Aa2 to Aa3	A+ to A / A1 to A3	Not Rated
Investments:								
U. S. Treasury Obligations	\$ 987,580	N/A	\$ -	\$ 987,580	\$ -	\$ -	\$ -	\$ -
U. S. Corporate Bonds	15,769,626	A	-	11,689,117	912,836	-	3,167,673	-
U. S. Municipal Bonds	7,521,463	A	-	-	-	5,102,121	2,419,342	-
Federal Agency Securities	77,272,743	N/A	-	60,516,890	8,885,143	-	-	7,870,710
Money Market Funds	1,063,163	N/A	1,063,163	-	-	-	-	-
Negotiable Certificates of Deposit	7,291,082	N/A	-	-	-	-	-	7,291,082
State Investment Pool (LAIF)	52,740,227	N/A	-	-	-	-	-	52,740,227
Subtotal	162,645,884		1,063,163	73,193,587	9,797,979	5,102,121	5,587,015	67,902,019
Held by fiscal agent:								
Money Market Funds	1,473,252	N/A	-	-	-	-	-	1,473,252
State Investment Pool (LAIF)	2,843,000	N/A	-	-	-	-	-	2,843,000
Subtotal	4,316,252		-	-	-	-	-	4,316,252
Investment in Section 115 Trust	1,989,784	N/A	-	-	-	-	-	1,989,784
Total	\$ 168,951,920		\$ 1,063,163	\$ 73,193,587	\$ 9,797,979	\$ 5,102,121	\$ 5,587,015	\$ 74,208,055

Disclosures Relating to 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	\$ 19,214,028
Federal Home Loan Bank	Federal Agency Securities	16,055,028
Federal Home Loan Mortgage Corp.	Federal Agency Securities	20,983,400
Federal Farm Credit Bank	Federal Agency Securities	21,020,287

Disclosures Relating to 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.

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.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 4 – Allowance for Uncollectible Receivables

Governmental and Business-type Activities receivables are shown net of an allowance for uncollectibles, which at June 30, 2018 is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 27,048,405	\$ 13,603,377	\$ 40,651,782
Allowance for doubtful accounts	<u>(2,760,260)</u>	<u>(267,210)</u>	<u>(3,027,470)</u>
Total	<u>\$ 24,288,145</u>	<u>\$ 13,336,167</u>	<u>\$ 37,624,312</u>

The governmental activities allowance is recorded in the General Fund for paramedic and general accounts receivable activities. The uncollectible accounts related to accounts receivable at June 30, 2018 are \$166,463 for the Water Fund and \$100,747 for the Wastewater Fund.

Note 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, 2018, the loans receivable was reported in the accompanying basic financial statements as follows:

Governmental Funds	\$ 54,138,030
Proprietary Funds	492,878
Fiduciary Funds	<u>245,424</u>
Total	<u>\$ 54,876,332</u>

The loans at June 30, 2018, consisted of the following:

City of Escondido:	
HOME grant fund loans	\$ 17,566,262
National Golf Operations	200,000
CDBG notes receivable	231,659
Notes receivable	492,878
Successor Agency Housing Special Revenue Funds:	
Loans given to developers and non-profits	30,807,466
Mobile home loan program	2,331,425
First-time homebuyer program	2,626,218
HOME loans	375,000
Successor Agency to the Former CDC:	
First-time homebuyer program	159,395
Mobile home loan program	<u>86,029</u>
Total	<u>\$ 54,876,332</u>

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Capital Assets

A. Governmental Activities

Summary of changes in capital assets for the governmental activities for the year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Transfers of CIP	Contributions Between Funds	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated:						
Art and historical treasures	\$ 9,532,194	\$ -	\$ -	\$ -	\$ -	\$ 9,532,194
Land	52,059,130	117,854	-	802,142	(275,000)	52,704,126
Construction in progress	11,456,061	(4,538,796)	-	10,601,680	-	17,518,945
Total capital assets, not being depreciated	73,047,385	(4,420,942)	-	11,403,822	(275,000)	79,755,265
Capital assets, being depreciated:						
Land improvements	38,020,906	758,142	-	-	-	38,779,048
Buildings	222,209,481	121,156	-	-	-	222,330,637
Machinery and equipment	28,617,404	2,842,782	-	488,479	-	31,948,665
Motorized vehicles	27,833,017	-	76,044	1,420,620	-	29,329,681
Infrastructure	304,484,546	698,862	-	35,000	-	305,218,408
Golf Course	4,326,835	-	-	-	-	4,326,835
Radio Rights	3,230,225	-	-	-	-	3,230,225
Total capital assets, being depreciated	628,722,414	4,420,942	76,044	1,944,099	-	635,163,499
Less accumulated depreciation						
Land improvements	(36,220,442)	-	-	(819,543)	-	(37,039,985)
Buildings	(114,284,918)	-	-	(5,950,064)	-	(120,234,982)
Machinery and equipment	(24,740,475)	-	-	(1,529,837)	-	(26,270,312)
Motorized vehicles	(20,331,538)	-	-	(2,852,499)	-	(23,184,037)
Infrastructure	(205,665,909)	-	-	(4,637,747)	-	(210,303,656)
Golf Course	(2,114,661)	-	-	(144,272)	-	(2,258,933)
Radio Rights	(161,511)	-	-	(161,511)	-	(323,022)
Total accumulated depreciation	(403,519,454)	-	-	(16,095,473)	-	(419,614,927)
Total capital assets, being depreciated, net	225,202,960	4,420,942	76,044	(14,151,374)	-	215,548,572
Total Governmental Activities capital assets, net	\$ 298,250,345	\$ -	\$ 76,044	\$ (2,747,552)	\$ (275,000)	\$ 295,303,837

Construction in progress in the governmental activities consists primarily of additions to infrastructure, parks, and library improvement projects.

Depreciation expense was charged to the following functions:

General government	\$ 3,625,330
Public safety	2,888,792
Public works	5,288,533
Community services	833,044
Community development	119,115
Internal service funds	3,340,659
Total	\$ 16,095,473

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Capital Assets (Continued)

B. Business-type Activities

Summary of changes in capital assets for the business-type activities for the year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Transfers of CIP	Contributions Between Funds	Additions	Deletions	Balance June 30, 2018
Capital assets, not being depreciated:						
Land	\$ 2,874,824		\$ -	\$ 104,573	\$ -	\$ 2,979,397
Construction in progress	68,868,773	(27,554,978)	-	24,266,656	-	65,580,451
Total capital assets, not being depreciated	71,743,597	(27,554,978)	-	24,371,229	-	68,559,848
Capital assets, being depreciated:						
Land improvements	1,035,020		-	-	-	1,035,020
Buildings	31,285,254	-	-	-	-	31,285,254
Machinery and equipment	10,337,015	-		502,004	-	10,839,019
Motorized vehicles	-	-	(76,044)	76,044	-	-
Water system	126,278,672	10,341,529	-	-	-	136,620,201
Electrical system	3,609,179	-	-	-	-	3,609,179
Sewer system	171,851,174	17,213,449	-	-	-	189,064,623
Recycled water system	24,163,391	-	-	-	-	24,163,391
Total capital assets, being depreciated	368,559,705	27,554,978	(76,044)	578,048	-	396,616,687
Less accumulated depreciation						
Land improvements	(278,369)	-	-	(28,487)	-	(306,856)
Buildings	(19,837,531)	-	-	(573,927)	-	(20,411,458)
Machinery and equipment	(7,554,503)	-		(889,618)	-	(8,444,121)
Water system	(46,595,348)	-	-	(3,278,551)	-	(49,873,899)
Electrical system	(3,235,912)	-	-	(49,270)	-	(3,285,182)
Sewer system	(67,605,368)	-		(4,340,488)	-	(71,945,856)
Recycled water system	(8,005,957)	-	-	(606,883)	-	(8,612,840)
Total accumulated depreciation	(153,112,988)	-	-	(9,767,224)	-	(162,880,212)
Total capital assets, being depreciated, net	215,446,717	27,554,978	(76,044)	(9,189,176)	-	233,736,475
Total Business-type Activities capital assets, net	\$ 287,190,314	\$ -	\$ (76,044)	\$ 15,182,053	\$ -	\$ 302,296,323

Business-type construction in progress consists primarily of construction of a recycled water distribution system, on-site chlorine generation at the Water Treatment Plant, odor control at the Hale Avenue Resource Recovery Facility, the San Elijo outfall project, and water and sewer line installation projects. Motorized vehicles and certain machinery and equipment purchased by enterprise funds are contributed to the internal service fleet fund to maintain assets.

Depreciation expense was charged to the following functions:

Water	\$ 4,132,922
Wastewater	5,634,302
Total	\$ 9,767,224

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 6 – Capital Assets (Continued)

C. Component Unit

Summary of changes in capital assets for the component unit for the year ended June 30, 2018, is as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets, being depreciated:				
Leasehold improvements	\$ 72,260	\$ 47,385	\$ -	\$ 119,645
Machinery and equipment	701,646	-	(3,067)	698,579
Total capital assets, being depreciated	<u>773,906</u>	<u>47,385</u>	<u>(3,067)</u>	<u>818,224</u>
Less accumulated depreciation				
Leasehold improvements	(4,021)	(11,688)	-	(15,709)
Machinery and equipment	(683,162)	-	26,982	(656,180)
Total accumulated depreciation	<u>(687,183)</u>	<u>(11,688)</u>	<u>26,982</u>	<u>(671,889)</u>
Total capital assets, being depreciated, net	<u>86,723</u>	<u>35,697</u>	<u>23,915</u>	<u>146,335</u>
Total Component Unit capital assets, net	<u>\$ 86,723</u>	<u>\$ 35,697</u>	<u>\$ 23,915</u>	<u>\$ 146,335</u>

Depreciation expense for the year ended June 30, 2018 was \$11,688.

Note 7 – Interfund Transactions

A. Due To and From Other Funds

At June 30, 2018, due from and to other funds balances are as follows:

<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Amounts</u>
General Fund	Community Development Block Grant Fund - Nonmajor Governmental Funds	\$ 144,437 (1)
General Fund	Building Maintenance Fund - Internal Service Funds	175,238 (2)
General Fund	Successor Agency of the Former CDC - Private Purpose Trust Fund	17,977,592 (3)
Streets Special Revenue Fund - Nonmajor Governmental Funds	Successor Agency of the Former CDC - Private Purpose Trust Fund	1,003,953 (4)

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Interfund Transactions (Continued)

A. Due To and From Other Funds (Continued)

- (1) The \$144,437 is for short-term borrowings from the Community Development Block Grant Nonmajor Governmental Fund to the General Fund due to negative cash balances at the end of this fiscal year.
- (2) The \$175,238 is for short-term borrowings from the Building Maintenance Internal Service Fund to the General Fund due to negative cash balances at the end of this fiscal year.
- (3) The Former Community Development Commission had received monies from the General Fund for use in its operations and capital improvement projects. For more information, see Note 8C.
- (4) The Former Community Development Commission had received monies from the Street Special Revenue Fund for use in its capital improvement projects. For more information, see Note 8C.

B. Advances To and From Other Funds

At June 30, 2018, advances to and from other fund balances are as follows:

<u>Advances To Other Funds</u>	<u>Advances From Other Funds</u>	<u>Amounts</u>
General Fund	Escondido Vehicle Parking District Special Revenue Fund - Nonmajor Governmental Funds	\$ 159,250 (1)
General Fund	Street Improvement Capital Projects Fund - Nonmajor Governmental Funds	200,000 (2)
Public Facilities Capital Projects Fund - Nonmajor Governmental Funds	General Fund	90,000 (3)

The advances were used for the following:

- (1) 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, 2018.
- (2) The General Fund entered into an agreement with the Street Improvement Capital Projects fund in the amount of \$200,000 for improvements to the Vineyard Golf Course.
- (3) 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, 2018, the amount of \$90,000 remained outstanding.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 7 – Interfund Transactions (Continued)

C. Transfers In and Out

For the year ended June 30, 2018, transfers in and out are as follows:

Transfer Out	Transfers In				Total
	General Fund	Successor Agency Housing	Nonmajor Governmental Funds	Internal Service Funds	
General Fund	\$ -	\$ 25,000	\$ 2,874,613	\$ 360,000	\$ 3,259,613
Nonmajor Governmental	2,466,538	-	123,097	-	2,589,635
Enterprise:					
Water	-	-	12,500	-	12,500
Wastewater	25,000	-	12,500	-	37,500
Internal Service Funds	-	-	76,045	-	76,045
Total	\$ 2,491,538	\$ 25,000	\$ 3,098,755	\$ 360,000	\$ 5,975,293

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.

Note 8 – Long-Term Debt

A. Governmental Activities

Summary of changes in long-term liabilities for Governmental Activities as of June 30, 2018, are as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within One Year	Due in More Than One Year
Compensated absences	\$ 6,703,407	\$ 1,394,345	\$ (1,562,602)	\$ 6,535,150	\$ 1,633,788	\$ 4,901,362
Claims payable	16,367,400	3,396,696	(2,940,696)	16,823,400	3,364,680	13,458,720
Loans payable	3,496,160	-	(410,163)	3,085,997	410,566	2,675,431
2015 Refunding General Obligation Bonds	60,460,000	-	(1,780,000)	58,680,000	1,870,000	56,810,000
Unamortized bond premium	8,254,064	-	(430,647)	7,823,417	-	7,823,417
2013A Lease Revenue Bonds	3,980,000	-	(230,000)	3,750,000	235,000	3,515,000
Unamortized bond discount	(7,516)	-	547	(6,969)	-	(6,969)
Capital leases	709,677	2,095,893	(457,050)	2,348,520	455,945	1,892,575
Total	\$ 99,963,192	\$ 6,886,934	\$ (7,810,611)	\$ 99,039,515	\$ 7,969,979	\$ 91,069,536

Compensated Absences - Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1. The balance at June 30, 2018, is \$6,535,150. This liability will be paid in future years from future resources primarily from the General Fund.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

A. Governmental Activities (Continued)

Claims Payable

The balance of claims payable at June 30, 2018, is \$16,823,400. 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, 2018, is \$392,020.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 92,339	\$ 14,585	\$ 106,924
2020	95,995	10,929	106,924
2021	99,851	7,072	106,923
2022	103,835	3,089	106,924
Total	<u>\$ 392,020</u>	<u>\$ 35,675</u>	<u>\$ 427,695</u>

In 2011, the City was granted five loans from the San Diego Gas and Electric Company to fund various energy conservation projects including the City Hall, CFA 921, EVCC, and the Park Avenue Community Center (PACC). The term of the loan is 8 years of monthly installment payments with no interest. The outstanding balances at June 30, 2018, are \$40,711.

The annual debt service requirements are as follows:

Year Ended June 30,	Principals				Total
	City Hall	CFA 921	EVCC	PACC	
2019	\$ 2,262	\$ 4,225	\$ 5,185	\$ 5,948	\$ 17,620
2020	2,262	4,225	5,185	-	11,672
2021	2,262	2,111	5,185	-	9,558
2022	566	-	1,295	-	1,861
Total	<u>\$ 7,352</u>	<u>\$ 10,561</u>	<u>\$ 16,850</u>	<u>\$ 5,948</u>	<u>\$ 40,711</u>

The City of Escondido, County of San Diego, and multiple participating agencies are involved in a Regional Communication System; the multi-year agreement expired in 2016. As a continuation of the program, the City entered into a new 20-year agreement with the County and participating agencies. The agreement obligated the City to share in the infrastructure costs with the County and to purchase radios and support devices.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

A. Governmental Activities (Continued)

Loans Payable (Continued)

In 2017, the City entered into a loan agreement with the County of San Diego for the City’s share of the infrastructure costs. The infrastructure is financed over a ten-year period with an annual interest rate of 2.79%. The outstanding balance at June 30, 2018, is \$2,653,267.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 300,607	\$ 74,026	\$ 374,633
2020	308,994	65,639	374,633
2021	317,615	57,018	374,633
2022	326,477	48,156	374,633
2023	335,585	39,048	374,633
2024-2027	1,063,989	59,915	1,123,904
Total	<u>\$ 2,653,267</u>	<u>\$ 343,802</u>	<u>\$ 2,997,069</u>

2015 Refunding 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 General Obligation Bonds, election of 2004, Series A were defeased with the issuance of the General Obligation Refunding Bonds, Series 2015 and the liability has been removed from the long-term debt.

On May 12, 2015, the City issued \$61,520,000 of General Obligation Refunding Bonds Series 2015. Proceeds from the Bonds were used to refund the General Obligation Bonds, election 2004, Series A, fund a debt service reserve fund and pay the costs of issuance. The Bonds bear interest ranging from 3.00% to 5.00% per annum payable on March 1 and September 1 of each year commencing March 1, 2015. The Bonds mature starting September 1, 2016 and end on September 1, 2036. At June 30, 2018, the outstanding balance of the Bonds was \$58,680,000 and unamortized bond premium was \$7,823,417.

The net proceeds of \$70.2 million of the General Obligation Bonds, Series 2015 (after a premium of \$9.1 million and payment of \$.4 million in underwriting fees, insurance, and other issuance costs) were used to refund the General Obligation Bonds, election of 2004, Series A and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded General Obligation Bonds, election of 2004, Series A. As a result, the refunded bonds are considered to be defeased and the liability of the General Obligation Bonds, election of 2004, Series A has been removed from long term debt. The refunding decreased the total debt service payment by \$10.3 million over the next 22 years and resulted in an economic gain of \$7.4 million.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

A. Governmental Activities (Continued)

2015 Refunding General Obligation Bonds (Continued)

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,870,000	\$ 2,915,300	\$ 4,785,300
2020	1,965,000	2,840,500	4,805,500
2021	2,065,000	2,742,250	4,807,250
2022	2,165,000	2,639,000	4,804,000
2023	2,275,000	2,530,750	4,805,750
2024-2028	13,350,000	10,821,250	24,171,250
2029-2033	17,425,000	7,096,250	24,521,250
2034-2037	17,565,000	2,252,000	19,817,000
	<u>\$ 58,680,000</u>	<u>\$ 33,837,300</u>	<u>\$ 92,517,300</u>

2013A 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, 2018, the outstanding balance of these bonds was \$3,750,000 and unamortized bond discount was \$6,969.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 235,000	\$ 125,844	\$ 360,844
2020	245,000	118,644	363,644
2021	250,000	111,219	361,219
2022	260,000	103,568	363,568
2023	265,000	95,694	360,694
2024-2028	1,475,000	336,406	1,811,406
2029-2031	1,020,000	61,559	1,081,559
Total	<u>\$ 3,750,000</u>	<u>\$ 952,934</u>	<u>\$ 4,702,934</u>

Capital Leases

In September 2014, the City entered into a lease agreement with Leasing 2, Inc. to acquire a Sutphen aerial ladder fire truck. Per the lease agreement, the annual payments of \$190,375 are due in August of each year with the final payment due in August 2020. The outstanding balance at June 30, 2018, was \$539,741.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

A. Governmental Activities (Continued)

Capital Leases (Continued)

The future minimum lease and the net present value of these minimum lease payments as of June 30, 2018, are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 174,830	\$ 15,545	\$ 190,375
2020	179,865	10,510	190,375
2021	185,046	5,329	190,375
Total	<u>\$ 539,741</u>	<u>\$ 31,384</u>	<u>\$ 571,125</u>

The net carrying amount of assets acquired under the capital lease totaled \$838,116 at June 30, 2018 and is classified as motorized vehicles within capital assets. The amortization of the leased assets are included as part of depreciation expense.

In 2018, the City entered into a lease-purchase agreement for the purchase of the mobile radios and support devices. The equipment is financed over a seven-year period with an annual interest rate of 2.79%. The outstanding balance at June 30, 2018, is \$1,808,779.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 281,115	\$ 50,460	\$ 331,575
2020	288,955	42,617	331,572
2021	297,016	34,556	331,572
2022	305,302	26,271	331,573
2023	313,819	17,754	331,573
2024	322,572	8,999	331,571
Total	<u>\$ 1,808,779</u>	<u>\$ 180,657</u>	<u>\$ 1,989,436</u>

The net carrying amount of assets acquired under the capital lease totaled \$2,728,067 at June 30, 2018 and is classified as machinery and equipment within capital assets. The amortization of the leased assets are included as part of depreciation expense.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities

Summary of changes in long-term liabilities for Business-type Activities as of June 30, 2018, are as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within One Year	Due in More Than One Year
Connection rights payable	\$ 13,244,955	\$ -	\$ (88,964)	\$ 13,155,991	\$ -	\$ 13,155,991
Compensated absences	1,243,692	351,738	(306,608)	1,288,822	322,206	966,616
Settlements payable	4,360,762	-	(4,360,762)	-	-	-
2007 Water Revenue COP	25,875,000	-	(620,000)	25,255,000	640,000	24,615,000
Unamortized bond premium	167,118	-	(8,253)	158,865	-	158,865
2012 Water Revenue Bonds	29,260,000	-	(520,000)	28,740,000	545,000	28,195,000
Unamortized bond premium	1,371,220	-	(55,192)	1,316,028	-	1,316,028
2015A Wastewater Refunding Revenue Bonds	12,615,000	-	(995,000)	11,620,000	1,045,000	10,575,000
Unamortized bond premium	1,957,968	-	(213,597)	1,744,371	-	1,744,371
2015B Wastewater Refunding Revenue Bonds	4,195,000	-	(430,000)	3,765,000	435,000	3,330,000
Unamortized bond discount	(44,609)	-	4,867	(39,742)	-	(39,742)
2012 Wastewater Revenue Bonds	26,670,000	-	(160,000)	26,510,000	165,000	26,345,000
Unamortized bond premium	1,565,202	-	(63,000)	1,502,202	-	1,502,202
Loans payable	13,994,614	12,500	(2,167,347)	11,839,767	2,175,290	9,664,477
Total	\$ 137,249,799	\$ 364,238	\$ (9,983,856)	\$ 126,856,304	\$ 5,327,496	\$ 121,528,808

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 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 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 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 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 outstanding balance at June 30, 2018 is \$13,155,991.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

Compensated Absences – Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1 of the Notes to Basic Financial Statements. This liability will be paid in future years from future resources. The balance at June 30, 2018, is \$1,288,822.

Settlements Payable

The balance of claims payable at June 30, 2018, is \$0 due to the conclusion of the San Luis Rey settlement agreement. 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. The Agreement commits Escondido and VID within five years 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 each agreed to pay the Indian Water Authority \$3.85 million ("Settlement Payment"). The Settlement Payment is adjusted from October 1, 2008 to the Effective Date by the change in the Consumer Price Index, All Urban Consumers, San Diego published by the United States Department of Labor, Bureau of Labor Statistics ("Index") which is equal to \$510,762. The settlement amount of \$4,360,762 reported as claims payable as of June 30, 2017 was paid in full as of June 30, 2018.

2007 Water 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, respectively, in integral multiple of \$5,000 at a prepayment price as described in the Certificate covenants. The outstanding balance at June 30, 2018 was \$25,255,000 and unamortized bond premium was \$158,865 at June 30, 2018.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

2007 Water Revenue Certificates of Participation (Continued)

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 640,000	\$ 1,164,850	\$ 1,804,850
2020	670,000	1,138,650	1,808,650
2021	695,000	1,111,350	1,806,350
2022	725,000	1,082,497	1,807,497
2023	755,000	1,051,972	1,806,972
2024-2028	4,805,000	4,684,869	9,489,869
2029-2033	4,580,000	3,394,048	7,974,048
2034-2038	12,385,000	1,752,868	14,137,868
Total	<u>\$ 25,255,000</u>	<u>\$ 15,381,104</u>	<u>\$ 40,636,104</u>

2012 Water Revenue Bonds

In March 2012, the City issued \$31,660,000 in Revenue Water System Financing Bonds to finance certain capital projects and to 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, 2018, was \$28,740,000 and the unamortized bond premium was \$1,316,028. A reserve fund is not established.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

2012 Water Revenue Bonds (Continued)

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 545,000	\$ 1,348,856	\$ 1,893,856
2020	565,000	1,326,656	1,891,656
2021	585,000	1,303,656	1,888,656
2022	610,000	1,279,756	1,889,756
2023	635,000	1,258,031	1,893,031
2024-2028	3,390,000	5,875,164	9,265,164
2029-2033	6,045,000	4,990,750	11,035,750
2034-2038	2,060,000	3,627,750	5,687,750
2039-2042	14,305,000	1,473,877	15,778,877
Total	<u>\$ 28,740,000</u>	<u>\$ 22,484,496</u>	<u>\$ 51,224,496</u>

2015A Wastewater Refunding Revenue Bonds

On April 29, 2015, the City issued \$14,645,000 of Refunding Revenue Bonds (Wastewater System), Series 2015A. Proceeds from the issuance were used to refund the 2004A COP Bonds and pay the costs of issuing the Bonds. The Bonds bear interest ranging from 2.00% to 5.00% per annum payable on March 1 and September 1 of each year commencing on September 1, 2015. The Bonds mature September 1, 2015 through September 1, 2026 and are limited obligations of the City payable solely from net revenues of the City's Wastewater System remaining after payment of operation and maintenance costs. At June 30, 2018, the outstanding balance of the Bonds was \$11,620,000 and unamortized bond premium was \$1,744,371.

The net proceeds of \$16.8 million of the Refunding Revenue Bonds (Wastewater System), Series 2015A (after a premium of \$2.4 million and payment of \$0.2 million in underwriting fees, insurance, and other issuance costs) were used to refund the Certificates of Participation, Series 2004A and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Certificates of Participation, Series 2004A. As a result, the refunded bonds are considered to be defeased and the liability of the Certificates of Participation, Series 2004A has been removed from long-term debt. The refunding decreased the total debt service payment by \$5.0 million over the next 12 years and resulted in an economic gain of \$2.4 million.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

2015A Wastewater Refunding Revenue Bonds (Continued)

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,045,000	\$ 554,875	\$ 1,599,875
2020	1,100,000	501,250	1,601,250
2021	1,160,000	444,750	1,604,750
2022	1,215,000	385,375	1,600,375
2023	1,280,000	323,000	1,603,000
2024-2027	5,820,000	600,000	6,420,000
Total	<u>\$ 11,620,000</u>	<u>\$ 2,809,250</u>	<u>\$ 14,429,250</u>

2015B Wastewater Refunding Revenue Bonds

On April 29, 2015, the City issued \$5,060,000 of Refunding Revenue Bonds (Wastewater System), Series 2015B. Proceeds from the issuance were used to refund the 2004B Certificates of Participation and pay the costs of issuing the Bonds. The Bonds bear interest ranging from 0.40% to 3.25% per annum payable on March 1 and September 1 of each year commencing on September 1, 2015. The Bonds mature September 1, 2015 through September 1, 2025. The 2015 Bonds are limited obligations of the City payable solely from net revenues of the City's Wastewater System remaining after payment of operation and maintenance costs. At June 30, 2018, the outstanding balance of the Bonds was \$3,765,000 and unamortized bond discount was \$39,742.

The net proceeds of \$5.0 million of the Refunding Revenue Bonds (Wastewater System), Series 2015B were used to refund the Certificates of Participation, Series 2004B and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Certificates of Participation, Series 2004B. As a result, the refunded bonds are considered to be defeased and the liability of the Certificates of Participation, Series 2004B has been removed from long term debt. The refunding decreased the total debt service payment by \$3.9 million over the next 11 years and resulted in an economic gain of \$1.1 million.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 435,000	\$ 93,514	\$ 528,514
2020	440,000	85,525	525,525
2021	450,000	76,063	526,063
2022	460,000	65,250	525,250
2023	475,000	52,969	527,969
2024-2026	1,505,000	71,844	1,576,844
Total	<u>\$ 3,765,000</u>	<u>\$ 445,165</u>	<u>\$ 4,210,165</u>

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

2012 Wastewater 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 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, 2018, was \$26,510,000 and unamortized bond premium is \$1,502,202. A reserve fund is not established.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 165,000	\$ 1,273,781	\$ 1,438,781
2020	175,000	1,266,981	1,441,981
2021	185,000	1,259,781	1,444,781
2022	185,000	1,252,381	1,437,381
2023	195,000	1,244,781	1,439,781
2024-2028	2,035,000	6,086,159	8,121,159
2029-2033	6,705,000	4,980,526	11,685,526
2034-2038	8,465,000	3,169,375	11,634,375
2039-2042	8,400,000	865,500	9,265,500
Total	<u>\$ 26,510,000</u>	<u>\$ 21,399,265</u>	<u>\$ 47,909,265</u>

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

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 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 for \$488,990 commencing 2002 and ending 2021. The principal and interest on the second phase loan is due annually on April 1 for \$1,728,852 commencing 2004 and ending 2023. The outstanding balance at June 30, 2018, is \$8,425,999.

The annual debt service requirements are as follows:

Year Ended June 30,	Principals			
	Phase I	Phase II	Phase III	Total
2019	\$ 407,490	\$ 823,099	\$ 617,606	\$ 1,848,195
2020	407,490	823,099	617,606	1,848,195
2021	407,497	823,099	617,606	1,848,202
2022	-	823,098	617,606	1,440,704
2023	-	823,098	617,605	1,440,703
	\$ 1,222,477	\$ 4,115,493	\$ 3,088,029	\$ 8,425,999

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, 2018, is \$724,945.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal			Total
	Principal	Interest	Total	
2019	\$ 113,408	\$ 17,511	\$ 130,919	
2020	116,276	14,643	130,919	
2021	119,216	11,703	130,919	
2022	122,231	8,688	130,919	
2023	125,322	5,596	130,918	
2024	128,492	2,427	130,919	
Total	\$ 724,945	\$ 60,568	\$ 785,513	

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

Loans Payable (Continued)

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, 2018, is \$629,820.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 83,701	\$ 15,116	\$ 98,817
2020	85,709	13,107	98,816
2021	87,767	11,050	98,817
2022	89,873	8,943	98,816
2023	92,030	6,786	98,816
2024-2025	190,740	6,894	197,634
Total	<u>\$ 629,820</u>	<u>\$ 61,896</u>	<u>\$ 691,716</u>

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, 2018, is \$2,059,183.

The annual debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	\$ 129,987	\$ 50,702	\$ 180,689
2020	133,260	47,430	180,690
2021	136,614	44,075	180,689
2022	140,053	40,636	180,689
2023	143,580	37,111	180,691
2024-2028	774,146	129,483	903,629
2029-2032	601,543	30,457	632,000
	<u>\$ 2,059,183</u>	<u>\$ 379,894</u>	<u>\$ 2,439,077</u>

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

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	\$ 21,043,892	\$ 9,793,318	46.54%
Loan repayment revenue	362,819	362,819	100.00%

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, 2018, the City met this requirement, as follows:

	Water	Wastewater
Gross revenues, excluding intergovernmental revenue and developer contributions	\$ 62,790,235	\$ 38,556,729
Operating and maintenance expenses, excluding depreciation, interest and transfers	55,437,132	24,865,940
Net revenues	7,353,103	13,690,789
Amount required:		
Debt service payments	4,017,925	5,775,393
Coverage required	1.20	1.15
Amount required	4,821,510	6,641,702
Excess of net revenues	\$ 2,531,593	\$ 7,049,087

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

C. Fiduciary Funds

Summary of changes in long-term liabilities for Fiduciary Funds as of June 30, 2018, are as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within One Year	Due in More Than One Year
Advances from the City of Escondido	\$ 18,690,957	\$ 340,588	\$ (50,000)	\$ 18,981,545	\$ 4,695,228	\$ 14,286,317
2007 A & B Lease Revenue Bonds	13,800,000	-	(6,730,000)	7,070,000	7,070,000	-
Unamortized bond premium	306,394	-	(204,263)	102,131	102,131	-
Total	\$ 32,797,351	\$ 340,588	\$ (6,984,263)	\$ 26,153,676	\$ 11,867,359	\$ 14,286,317

Advances from the City of Escondido

The Community Development Commission Debt Service Fund had received monies from the General Fund and Street Special Revenue Fund for use in its operations and capital improvement projects. These advances were absorbed by the Successor Agency at February 1, 2012, and recorded on the ROPS to be an enforceable obligation. At June 30, 2018, the outstanding balance of the advance from the Street Special Revenue Fund totaled \$1,003,953.

In accordance with AB X1 26 which dissolves redevelopment agencies, the California State Department of Finance determined that Advances made between the General Fund and the former Community Development Commission were disallowed and not an enforceable obligation. On April 26, 2017, the Department of Finance approved the City of Escondido Successor Agency Oversight Board Resolution making a finding that city loans were for legitimate redevelopment purposes and eligible for reinstatement. As a result, \$9,832,652 of principal and accumulated interest are recorded as a Loan to the Successor Agency from the General Fund. Repayments will begin in fiscal year 2018/2019. At June 30, 2018, the outstanding balance of the advance from the General Fund totaled \$17,977,592.

2007 A&B 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, 2018, was \$7,070,000 and unamortized bond premium was \$102,131.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 8 – Long-Term Debt (Continued)

C. Fiduciary Funds

2007 A&B Lease Revenue Bonds (Continued)

The annual debt service requirements are as follows:

Year Ended June 30,	2007A		2007B		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2019	\$ 5,025,000	\$ 125,625	\$ 2,045,000	\$ 56,544	\$ 7,070,000	\$ 182,169	\$ 7,252,169
Total	\$ 5,025,000	\$ 125,625	\$ 2,045,000	\$ 56,544	\$ 7,070,000	\$ 182,169	\$ 7,252,169

D. Component Unit

Summary of changes in long-term liabilities for Component Unit as of June 30, 2018, are as follows:

	Balance			Balance June 30, 2018	Due within One Year	Due in More Than One Year
	July 1, 2017	Additions	Deletions			
Compensated absences	\$ 73,412	\$ 48,169		\$ 121,581	\$ 42,553	\$ 79,028
Total	\$ 73,412	\$ 48,169	\$ -	\$ 121,581	\$ 42,553	\$ 79,028

Compensated Absences – Employee Leave Benefits Payable

The Foundation policies relating to employee leave benefits are described in Note 1 of the Notes to Basic Financial Statements. This liability will be paid in future years from future resources. The balance at June 30, 2018, is \$121,581.

Note 9 – Debt without City’s Commitment

A. 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, 2018	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	\$ 16,950,000	\$ 11,150,000	

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 9 – Debt without City’s Commitment (Continued)

B. Special Assessment Debt

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, 2018, the 86-1-R Limited Obligation Improvement Refunding Bonds outstanding were \$315,000.

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 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, 2018, the 98-1 Limited Obligation Refunding Bonds outstanding were \$2,330,000.

In May 2015, the City issued \$13,745,000 in Special Tax Refunding Bonds for Community Facility District No. 2006-01 (Eureka Ranch). These bonds were issued to refund the 2006 Series Special Tax Bonds for Community Facility District No. 2006-01 (Eureka Ranch). The bonds were issued to finance various public improvements needed to develop property located within Community Facilities District No. 2006-01 (Eureka Ranch). The May 2015 issuance of the Special Tax Refunding Bonds fully defeased the 2006 Special Tax Bonds. Interest payments for the Special Tax Refunding Bonds, Series 2015 commenced March 1, 2016 and are paid semiannually thereafter on September 1 and March 1 of each year. Principal is paid annually in amounts ranging from \$285,000 to \$985,000, commencing September 1, 2016 and ending September 1, 2036. In addition, \$2,965,000 and \$3,875,000 of Term Bonds are due September 1, 2036. On June 30, 2018, the 2006-01 Special Tax Bonds outstanding were \$13,005,000.

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, 2018, the outstanding principal of Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding bonds, Series 2013 was \$1,950,000. 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 Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Self-Insurance

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

SANDPIPA's pooled liability will go into run off on July 1, 2015, adding no new years of claims liabilities. SANDPIPA will continue to exist for the purpose of disposing of all claims, distribution of assets proportionate to each city's cash contributions, and all other functions necessary to wind down the affairs of the Joint Powers Authority (JPA). Effective July 1, 2015, SANDPIPA will purchase coverage from member self-insured retentions to \$50 million with the California State Association of Counties Excess Insurance Authority (CSAC-EIA).

As of June 30, 2018, the City has recorded general self-insurance and workers' compensation liabilities of \$2,486,400 and \$14,337,000 respectively, for a total of \$16,823,400. 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 Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 10 – Self-Insurance (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. Changes in the City's liability for claims payable for the past three fiscal years are summarized as follows:

Fiscal Year	Beginning Balance	Claims Incurred and Charges in Estimates	Less Claim Payments	Ending Balance
2015-16	14,055,715	4,628,095	(2,934,110)	15,749,700
2016-17	15,749,700	886,500	(268,800)	16,367,400
2017-18	16,367,400	3,396,696	(2,940,696)	16,823,400

Note 11 – Restricted Net Position

At June 30, 2018, restricted net position consisted of the followings:

	Governmental Activities	Business-type Activities	Total
General government	\$ 6,828,457	\$ -	\$ 6,828,457
Low and moderate income housing	75,731,903	-	75,731,903
Community services	4,703,405	-	4,703,405
Debt service	3,070,923	3,642,092	6,713,015
Capital projects	1,813,807	-	1,813,807
Public safety	339,088	-	339,088
Public works	10,367,137	-	10,367,137
Investment in Section 115 Trust	1,997,186	-	1,997,186
Total restricted net position	<u>\$ 104,851,906</u>	<u>\$ 3,642,092</u>	<u>\$ 108,493,998</u>

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Fund Balance

A. Fund Balance Classification

At June 30, 2018, fund balances are classified as follows:

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:				
Nonspendable				
Advances to other funds	\$ 159,250	\$ -	\$ -	\$ 159,250
Due from Successor Agency, net of unavailable revenue	9,832,652	-	-	9,832,652
Inventory and prepaid items	-	-	33,183	33,183
Daley Ranch Permanent Fund	-	-	340,437	340,437
Total nonspendable	9,991,902	-	373,620	10,365,522
Restricted for				
Housing & community development	-	42,900,263	18,463,346	61,363,609
Community Development Block Grant	-	-	17,770	17,770
Investment in Section 115 Trust	1,997,186	-	-	1,997,186
Debt service	-	-	4,143,233	4,143,233
Capital projects	-	-	8,211,326	8,211,326
Street maintenance	-	-	7,898,435	7,898,435
Landscape and assessment districts	-	-	1,424,339	1,424,339
Daley Ranch	-	-	533,001	533,001
Park development	-	-	3,732,882	3,732,882
Public Art	-	-	486,569	486,569
Total restricted	1,997,186	42,900,263	44,910,901	89,808,350
Committed to				
Reserves	17,392,319	-	-	17,392,319
Capital projects	-	-	698,161	698,161
Total committed	17,392,319	-	698,161	18,090,480
Assigned to				
Carryovers	126,380	-	-	126,380
Underground waivers	1,284,313	-	-	1,284,313
Library Trust	352,080	-	-	352,080
Total assigned	1,762,773	-	-	1,762,773
Unassigned (deficit)	2,839,620	-	(1,347,939)	1,491,681
Total Fund Balances	\$ 33,983,800	\$ 42,900,263	\$ 44,634,743	\$ 121,518,806

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 12 – Fund Balance (Continued)

B. General Fund Reserve

The General Fund Reserves portion of fund balance is committed by City Council to maintain adequate levels of fund balance to mitigate current and future risks and to provide for cash flow requirements and contingencies for unseen operating or capital needs the City. The Reserve 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. City Council action by Resolution is required to adjust the Reserve level.

Note 13 – City Employees Retirement Plan

A. CalPERS

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. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. A full description of the pension plan regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2016 Annual Actuarial Valuation Report. This report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries.

The plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan		
	Tier 1 *	Tier 2 *	PEPRA (Tier 3)
Hire date	Prior to December 23, 2012	December 23, 2012 and after	January 1, 2013 and after
Benefit formula	3% @ 60	2% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	minimum 50 yrs	minimum 50 yrs	minimum 52 yrs
Monthly benefits, as a % of eligible compensation	2.000% - 3.000%, 50 yrs - 60+ yrs, respectively	1.092% - 2.418%, 50 yrs - 63+ yrs, respectively	1.000% - 2.500%, 52 yrs - 67+ yrs, respectively
Required employee contribution rates	8.000%	7.000%	6.250%
Required employer contribution rates	30.801%	30.801%	30.801%

* Plan is closed to new entrants

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – City Employees Retirement Plan (Continued)

A. CalPERS (Continued)

Benefits Provided (continued)

	Safety Plan		
	Tier 1 *	Tier 2 *	PEPRA (Tier 3)
Hire date	Fire - prior to May 27, 2012, Police - prior to September 30, 2012	Fire - May 27, 2012 and after Police - September 30, 2012 and after	January 1, 2013 and after
Benefit formula	3% @ 50	2% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	minimum 50 yrs	minimum 50 yrs	minimum 52 yrs
Monthly benefits, as a % of eligible compensation	3.000% - 3.000%, 50 yrs - 55+ yrs, respectively	2.000% - 2.700%, 50 yrs - 55+ yrs, respectively	2.000% - 2.700%, 50 yrs - 57+ yrs, respectively
Required employee contribution rates	9.000%	9.000%	12.250%
Required employer contribution rates	37.787%	37.787%	37.787%

* Plan is closed to new entrants

Employees Covered by Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms of the plan:

Description	Number of members	
	Miscellaneous	Safety
Active members	581	250
Transferred members	287	66
Terminated members	365	48
Retired members and beneficiaries	639	305
Total Members	1,872	669

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – City Employees Retirement Plan (Continued)

A. CalPERS (Continued)

Net Pension Liability

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2017, the total pension liability was determined by rolling forward the June 30, 2018 total pension liability. The June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumption

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expenses. The discount rate was changed from 7.65 percent to 7.15 percent as of the June 30, 2016 valuation date.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – City Employees Retirement Plan (Continued)

A. CalPERS (Continued)

Net Pension Liability (Continued)

Discount Rate (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

<u>Assets Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – City Employees Retirement Plan (Continued)

A. CalPERS (Continued)

Changes in Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Miscellaneous Plan			
Balance at: 6/30/2016 (Valuation Date) ⁽¹⁾	\$ 374,290,823	\$ 253,918,338	\$ 120,372,485
Changes Recognized for the Measurement Period:			
Service Cost	7,098,079	-	7,098,079
Interest on the Total Pension Liability	27,888,570	-	27,888,570
Changes of Assumptions	22,286,442	-	22,286,442
Difference between Expected and Actual Experience	(1,062,074)	-	(1,062,074)
Plan to Plan Resource Movement	-	-	-
Contribution from the Employer	-	11,179,205	(11,179,205)
Contributions from Employees	-	2,789,527	(2,789,527)
Net Investment Income ⁽²⁾	-	28,354,307	(28,354,307)
Benefit Payments including Refunds of Employee Contributions	(18,028,629)	(18,028,629)	-
Administrative Expense	-	(374,893)	374,893
Net Changes During 2016-17	38,182,388	23,919,517	14,262,871
Balance at: 6/30/2017 (Measurement Date) ⁽¹⁾	\$ 412,473,211	\$ 277,837,855	\$ 134,635,356
Safety Plan			
Balance at: 6/30/2016 (Valuation Date) ⁽¹⁾	\$ 347,570,102	\$ 246,281,077	\$ 101,289,025
Changes Recognized for the Measurement Period:			
Service Cost	7,712,365	-	7,712,365
Interest on the Total Pension Liability	26,029,723	-	26,029,723
Changes of Assumptions	22,546,727	-	22,546,727
Difference between Expected and Actual Experience	(1,522,544)	-	(1,522,544)
Contribution from the Employer	-	9,490,834	(9,490,834)
Contributions from Employees	-	2,397,909	(2,397,909)
Net Investment Income ⁽²⁾	-	27,240,685	(27,240,685)
Benefit Payments including Refunds of Employee Contributions	(16,796,782)	(16,796,782)	-
Administrative Expense	-	(363,617)	363,617
Net Changes During 2016-17	37,969,489	21,969,029	16,000,460
Balance at: 6/30/2017 (Measurement Date) ⁽¹⁾	\$ 385,539,591	\$ 268,250,106	\$ 117,289,485

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

(2) Net of administrative expenses.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – City Employees Retirement Plan (Continued)

A. CalPERS (Continued)

Changes in Net Pension Liability (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Miscellaneous Plan	\$ 188,182,875	\$ 134,635,356	\$ 90,165,808
Safety Plan	172,403,731	117,289,485	72,352,265
Total Plans	<u>\$ 360,586,606</u>	<u>\$ 251,924,841</u>	<u>\$ 162,518,073</u>

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued CalPERS financial report.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the measurement period ending June 30, 2017, the City incurred a pension expense of \$11,189,817 and \$9,480,521 for Miscellaneous and Safety plans, respectively.

As of measurement date of June 30, 2017, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

	Miscellaneous Plan		Safety Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made after measurement date	\$ 11,929,230	\$ -	\$ 10,527,694	\$ -
Changes of Assumptions	14,405,373	-	15,390,272	-
Differences between Expected and Actual Experiences	-	(1,009,421)	3,139,759	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>3,620,390</u>	<u>-</u>	<u>3,795,682</u>	<u>-</u>
	<u>\$ 29,954,993</u>	<u>\$ (1,009,421)</u>	<u>\$ 32,853,407</u>	<u>\$ -</u>

The amounts above are net of outflows and inflows recognized in the 2016-17 measurement period expense.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 13 – City Employees Retirement Plan (Continued)

A. CalPERS (Continued)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired). The EARSL for the miscellaneous plan and safety plan for the 2015-16 measurement period is 3.0 and 4.7 years, which was obtained by dividing the total service years of 5,237 and 2,992 (the sum of remaining service lifetimes of the active employees) by 1,763 and 639 (the total number of participants: active, inactive, and retired), respectively.

The \$18,025,763 and \$22,325,714 reported as deferred outflows of resources related to pension resulting from the City’s contributions subsequent to the measurement date during the year ended June 30, 2018 will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended	Deferred	
	Outflows/(Inflows)	Outflows/(Inflows)
	of Resources	of Resources
June 30:	Miscellaneous Plan	Safety Plan
2018	\$ 6,704,162	\$ 5,228,675
2019	10,839,303	9,644,082
2020	1,549,903	7,083,430
2021	(2,077,032)	369,526
2022	-	-
Thereafter	-	-
Total	\$ 17,016,336	\$ 22,325,713

B. 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, 2018, the City's total covered payroll was \$2,310,171. The City made employer contributions of \$0, and employees contributed \$173,264 (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.

CITY OF ESCONDIDO
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2018

Note 14 – Developer Agreement with Palomar Pomerado Health (Hospital)

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, 2018, the balance is \$9,925,092.

Note 15 – Contingencies and Commitments

A. 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.

B. Grants

Amounts received or receivable from granting agencies are subject to audit and adjustments by grantor agencies. While no matters of non-compliance were disclosed by the audit of the financial statements or single audit of the Federal programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have material adverse effect on the financial position of the City.

C. Construction Commitments

The City has several outstanding or planned construction projects as of June 30, 2018. These projects are evidenced by contractual commitments with contractors. As of June 30, 2018, the City's outstanding commitments are as follows:

Project Name	Contract Amount	Expenditures to date as of June 30, 2018	Remaining Commitments
East Valley Parkway Street Widening Project	\$ 6,873,316	\$ 4,766,159	\$ 2,107,157
Construction of Brine pipeline return from Broadway to	5,587,420	88,065	5,499,355
Hale Avenue Emergency Repair	3,000,000	1,792,368	1,207,632
Escondido Creek Bikeway Missing Link Project	1,046,640	71,959	974,681





Required Supplementary Information

CITY OF ESCONDIDO
Required Supplementary Information
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2018

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:				
Sales tax	\$ 38,298,510	\$ 37,349,510	\$ 36,573,403	\$ (776,107)
Property taxes	25,866,000	26,676,000	26,661,521	(14,479)
Other taxes	12,062,000	12,808,000	12,742,188	(65,812)
Licenses and permits	1,087,000	1,284,000	1,183,587	(100,413)
Fines and forfeits	1,286,000	1,181,000	1,076,387	(104,613)
Intergovernmental	3,346,000	3,722,915	3,701,387	(21,528)
Charges for services	11,235,000	11,734,810	12,094,445	359,635
Lease income	3,760,505	3,760,505	3,786,764	26,259
Investment income	177,655	224,655	11,194	(213,461)
Miscellaneous	187,345	217,345	342,966	125,621
Total revenues	97,306,015	98,958,740	98,173,842	(784,898)
EXPENDITURES:				
General Government				
City council	450,920	450,920	447,995	(2,925)
City manager	1,237,300	1,424,065	1,379,665	(44,400)
City attorney	167,565	183,435	40,249	(143,186)
City clerk	562,065	580,145	579,412	(733)
City treasurer	274,020	274,020	235,067	(38,953)
Finance	1,283,205	1,314,665	1,134,811	(179,854)
Human resources	618,340	634,820	565,828	(68,992)
Information systems	1,194,180	1,242,285	1,198,657	(43,628)
Other general government	1,359,445	660,915	493,962	(166,953)
Public Safety				
Police	41,020,305	41,498,270	41,497,537	(733)
Fire	23,526,630	24,935,705	24,712,985	(222,720)
Public Works				
Public works	12,258,195	12,463,320	12,198,345	(264,975)
Community Services				
Library	3,670,055	3,517,935	3,512,373	(5,562)
Community services	5,798,150	5,912,050	5,732,529	(179,521)
Community relations	91,170	91,170	14,000	(77,170)
Community Development				
Planning	2,201,300	2,442,640	1,922,491	(520,149)
Code enforcement	1,295,035	1,305,805	1,100,375	(205,430)
Building	1,009,010	1,088,575	994,774	(93,801)
Debt Service:				
Principal retirements	549,225	549,225	538,955	(10,270)
Interest and fiscal charges	117,180	117,180	109,682	(7,498)
Total expenditures	98,683,295	100,687,145	98,409,692	(2,277,453)

CITY OF ESCONDIDO
Required Supplementary Information
General Fund
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2018

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,377,280)</u>	<u>(1,728,405)</u>	<u>(235,850)</u>	<u>1,492,555</u>
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	1,724,580	1,724,580
Debt issuance	-	2,095,893	2,095,893	-
Transfers in	2,081,000	2,081,795	2,491,538	409,743
Transfers (out)	<u>(658,720)</u>	<u>(3,259,615)</u>	<u>(3,259,613)</u>	<u>(2)</u>
Total other financial sources (uses)	<u>1,422,280</u>	<u>918,073</u>	<u>3,052,398</u>	<u>2,134,321</u>
NET CHANGE IN FUND BALANCE	45,000	(810,332)	2,816,548	3,626,876
FUND BALANCE:				
Beginning of Year	<u>31,167,252</u>	<u>31,167,252</u>	<u>31,167,252</u>	<u>-</u>
End of Year	<u>\$ 31,212,252</u>	<u>\$ 30,356,920</u>	<u>\$ 33,983,800</u>	<u>\$ 3,626,876</u>

CITY OF ESCONDIDO
Required Supplementary Information
Successor Agency Housing Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2018

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:				
Lease income	\$ 185,000	\$ 185,000	\$ 164,328	\$ (20,672)
Investment income	-	-	208,006	208,006
Intergovernmental	1,700,000	1,700,000	146,052	(1,553,948)
Miscellaneous	-	-	85,698	85,698
Total revenues	1,885,000	1,885,000	604,084	(1,280,916)
EXPENDITURES:				
Current:				
Community development	536,245	554,465	455,160	(99,305)
Total expenditures	536,245	554,465	455,160	(99,305)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,348,755	1,330,535	148,924	(1,181,611)
OTHER FINANCING SOURCES (USES)				
Transfers in	25,000	25,000	25,000	-
Total other financing sources (uses)	25,000	25,000	25,000	-
NET CHANGE IN FUND BALANCE	1,373,755	1,355,535	173,924	(1,181,611)
FUND BALANCE:				
Beginning of Year	42,726,339	42,726,339	42,726,339	-
End of Year	<u>\$ 44,100,094</u>	<u>\$ 44,081,874</u>	<u>\$ 42,900,263</u>	<u>\$ (1,181,611)</u>

CITY OF ESCONDIDO
Required Supplementary Information (Unaudited)
Miscellaneous Plan - Agent Multiple-Employer Defined Benefit Plan
Schedule of Changes in Net Pension Liability and Related Ratios
As of June 30, for the Last Ten Fiscal Years (1)

MEASUREMENT PERIOD	2016-17	2015-16	2014-15	2013-14 ⁽¹⁾
TOTAL PENSION LIABILITY				
Service Cost	\$ 7,098,079	\$ 6,041,393	\$ 6,086,726	\$ 6,187,698
Interest	27,888,570	26,975,771	25,822,523	24,823,748
Changes of Benefits Terms	-	-	-	-
Changes in Assumptions	22,286,442	-	(6,078,768)	-
Difference Between Expected and Actual Experience	(1,062,074)	(607,786)	(3,440,683)	-
Benefit Payments, Including Refunds of employee Contributions	(18,028,629)	(16,660,225)	(15,747,072)	(14,003,896)
Net Change in Total Pension Liability	\$ 38,182,388	\$ 15,749,153	\$ 6,642,726	\$ 17,007,550
Total Pension Liability - Beginning	374,290,827	358,541,674	351,898,948	334,891,398
Total Pension Liability - Ending (a)	\$ 412,473,215	\$ 374,290,827	\$ 358,541,674	\$ 351,898,948
PLAN FIDUCIARY NET POSITION				
Contribution - Employer	\$ 11,179,238	\$ 10,112,332	\$ 8,956,819	\$ 8,191,219
Contribution - Employee	2,789,527	2,818,117	2,702,365	2,751,097
Net Investment Income ⁽²⁾	28,354,307	1,306,944	5,794,332	38,132,668
Benefit Payments, Including Refunds of Employee Contributions	(18,028,629)	(16,660,225)	(15,747,072)	(14,003,896)
Plan to Plan Resource Movement	-	-	(741)	-
Administrative Expense	(374,893)	(156,322)	(288,739)	-
Net Change in Fiduciary Net Position	\$ 23,919,550	\$ (2,579,154)	\$ 1,416,964	\$ 35,071,088
Plan Fiduciary Net Position - Beginning	253,918,338	256,497,492	255,080,528	220,009,440
Plan Fiduciary Net Position - Ending (b)	\$ 277,837,888	\$ 253,918,338	\$ 256,497,492	\$ 255,080,528
Plan Net Pension Liability/(Assets) - Ending (a) - (b)	\$ 134,635,327	\$ 120,372,489	\$ 102,044,182	\$ 96,818,420
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.36%	67.84%	71.54%	72.49%
Covered-Employee Payroll	\$ 37,199,720	\$ 34,850,841	\$ 34,030,669	\$ 32,920,288
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	361.93%	345.39%	299.86%	294.10%

(1) Historical information is required only for measurement for which GASB 68 is applicable.

(2) Net of administrative expenses for fiscal year 2013-14.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

CITY OF ESCONDIDO
Required Supplementary Information (Unaudited) (Continued)
Safety Plan - Agent Multiple-Employer Defined Benefit Plan
Schedule of Changes in Net Pension Liability and Related Ratios
As of June 30, for the Last Ten Fiscal Years (1)

MEASUREMENT PERIOD	2016-17	2015-16	2014-15	2013-14 ⁽¹⁾
TOTAL PENSION LIABILITY				
Service Cost	\$ 7,712,365	\$ 6,945,677	\$ 6,321,850	\$ 5,878,133
Interest	26,029,723	25,001,133	23,398,715	22,099,344
Changes of Benefits Terms	-	-	-	-
Changes in Assumptions	22,546,727	-	(5,933,256)	-
Difference Between expected and Actual Experience	(1,522,544)	5,753,055	2,817,273	-
Benefit Payments, Including Refunds of employee Contributions	(16,796,782)	(15,432,111)	(14,245,717)	(13,505,688)
Net Change in Total Pension Liability	\$ 37,969,489	\$ 22,267,754	\$ 12,358,865	\$ 14,471,789
Total Pension Liability - Beginning	347,570,102	325,302,348	312,943,483	298,471,694
Total Pension Liability - Ending (a)	\$ 385,539,591	\$ 347,570,102	\$ 325,302,348	\$ 312,943,483
PLAN FIDUCIARY NET POSITION				
Contribution - Employer	\$ 9,490,834	\$ 9,136,622	\$ 9,066,062	\$ 7,687,967
Contribution - Employee	2,397,909	2,460,227	2,322,205	2,079,491
Net Investment Income	27,240,685	1,283,251	5,455,063	36,944,486
Benefit Payments, Including Refunds of Employee Contributions	(16,796,782)	(15,432,111)	(14,245,717)	(13,505,688)
Plan to Plan Resource Movement	-	-	-	-
Administrative Expense	(363,617)	(151,743)	(280,190)	-
Net Change in Fiduciary Net Position	\$ 21,969,029	\$ (2,703,754)	\$ 2,317,423	\$ 33,206,256
Plan Fiduciary Net Position - Beginning	246,281,077	248,984,831	246,667,408	213,461,153
Plan Fiduciary Net Position - Ending (b)	\$ 268,250,106	\$ 246,281,077	\$ 248,984,831	\$ 246,667,409
Plan Net Pension Liability/(Assets) - Ending (a) - (b)	\$ 117,289,485	\$ 101,289,025	\$ 76,317,517	\$ 66,276,074
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.58%	70.86%	76.54%	78.82%
Covered-Employee Payroll	\$ 25,070,264	\$ 25,315,004	\$ 23,096,046	\$ 20,583,139
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	467.84%	400.11%	330.44%	321.99%

(1) Historical information is required only for measurement for which GASB 68 is applicable.

(2) Net of administrative expenses for fiscal year 2013-14.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

CITY OF ESCONDIDO
Notes to Required Supplementary Information
June 30, 2018

Budgetary Information

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, Community Services, 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 appropriated again 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

CITY OF ESCONDIDO
Non-Major Governmental Funds

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.
- Revenues allocated to the City based on section 2031 of the Streets & Highway Code and the Road Repair and Accountability Act of 2017 (SB1 Beall). These revenues come from an additional 12 cent per gallon increase to the gasoline excise tax and additional 20 cent per gallon increase to the diesel fuel excise tax effective November 1, 2017. In addition, a "Transportation Improvement Fee" was added to vehicle registrations beginning January 1, 2018.
- 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.

COMMUNITY SERVICES FUND

This fund was established to account for transactions related to:

- Transactions related to the After School Education & Safety Grant which provides funds to provide safe and educationally enriching alternatives for children and youths during nonschool hours
- The purchase and development of parks with funding received from park development fees collected from developers.
- The revenue received from the sale of mitigation credits. The funds will be used to provide fund restoration projects at Daley Ranch.
- The operating activities of the Reidy Creek Golf Course

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 38 active assessment districts.

CITY OF ESCONDIDO
Non-Major Governmental Funds

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.

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.

CITY OF ESCONDIDO
Non-Major Governmental Funds

DEBT SERVICE FUNDS

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.

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.

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.

GENERAL CAPITAL PROJECTS 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.

COUNTY TRANSPORTATION STREET 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.

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, 2018

	Special Revenue			
	Street	Community Services	Community Development Block Grant	Landscape and Assessment District
ASSETS				
Cash and investments	\$ 6,120,346	\$ 4,241,410	\$ -	\$ 1,439,261
Cash and investments with fiscal agent	-	-	-	-
Receivable:				
Accounts	-	535	-	3,100
Interest	25,598	16,182	-	6,100
Taxes	-	-	-	3,897
Loans	-	-	231,659	-
Due from other governments	321,085	92,120	241,952	-
Due from Successor Agency	1,003,953	-	-	-
Inventory	-	14,325	-	-
Prepaid items	-	18,858	-	-
Deposits	-	100,935	-	-
Advances to other funds	-	-	-	-
Total assets	\$ 7,470,982	\$ 4,484,365	\$ 473,611	\$ 1,452,358
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 65,792	\$ 28,916	\$ 35,845	\$ 28,019
Deposits payable	-	-	-	-
Retention payable	3,787	-	31,635	-
Accrued expenditures	-	64,262	12,265	-
Due to other funds	-	-	144,437	-
Due to other governments	-	-	-	-
Unearned revenues	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	69,579	93,178	224,182	28,019
Deferred inflows of resources:				
Unavailable revenue	855,721	92,120	231,659	-
Total deferred inflows of resources	855,721	92,120	231,659	-
Fund balances:				
Nonspendable	-	33,183	-	-
Restricted	6,545,682	4,265,884	17,770	1,424,339
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	6,545,682	4,299,067	17,770	1,424,339
Total liabilities, deferred inflows of resources and fund balances	\$ 7,470,982	\$ 4,484,365	\$ 473,611	\$ 1,452,358

CITY OF ESCONDIDO
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue			
	Law Enforcement	HOME	Miscellaneous	Vehicle Parking District
ASSETS				
Cash and investments	\$ 180,823	\$ 893,303	\$ 617,440	\$ 5,520
Cash and investments with fiscal agent	-	-	-	-
Receivable:				
Accounts	-	-	-	-
Interest	2,766	4,931,359	2,721	110
Taxes	-	-	-	-
Loans	-	17,566,262	-	-
Due from other governments	490,985	-	149,542	-
Due from Successor Agency	-	-	-	-
Inventory	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	-	-	-
Advances to other funds	-	-	-	-
Total assets	\$ 674,574	\$ 23,390,924	\$ 769,703	\$ 5,630
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 123,395	\$ -	\$ 89,977	\$ 452
Deposits payable	-	-	-	-
Retention payable	-	-	-	-
Accrued expenditures	10,709	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	-	469,988
Unearned revenues	405,476	-	14,128	-
Advances from other funds	-	-	-	159,250
Total liabilities	539,580	-	104,105	629,690
Deferred inflows of resources:				
Unavailable revenue	353,379	4,927,578	149,542	-
Total deferred inflows of resources	353,379	4,927,578	149,542	-
Fund balances:				
Nonspendable	-	-	-	-
Restricted	-	18,463,346	516,056	-
Committed	-	-	-	-
Unassigned (deficit)	(218,385)	-	-	(624,060)
Total fund balances	(218,385)	18,463,346	516,056	(624,060)
Total liabilities, deferred inflows of resources and fund balances	\$ 674,574	\$ 23,390,924	\$ 769,703	\$ 5,630

CITY OF ESCONDIDO
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Debt Service		Capital Projects	
	General Obligation	Golf Course	Street Improvement	Storm Drain
ASSETS				
Cash and investments	\$ 4,072,301	\$ 22,928	\$ 3,023,034	\$ 689,071
Cash and investments with fiscal agent	-	22	-	-
Receivable:				
Accounts	-	-	121,876	-
Interest	14,680	203	16,059	2,778
Taxes	33,849	-	-	-
Loans	-	-	-	-
Due from other governments	-	-	1,400,164	-
Due from Successor Agency	-	-	-	-
Inventory	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	-	-	-
Advances to other funds	-	-	200,000	-
Total assets	\$ 4,120,830	\$ 23,153	\$ 4,761,133	\$ 691,849
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 750	\$ -	\$ 297,780	\$ 7,850
Deposits payable	-	-	2,359,920	9,573
Retention payable	-	-	-	-
Accrued expenditures	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Unearned revenues	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	750	-	2,657,700	17,423
Deferred inflows of resources:				
Unavailable revenue	-	-	750,680	-
Total deferred inflows of resources	-	-	750,680	-
Fund balances:				
Nonspendable	-	-	-	-
Restricted	4,120,080	23,153	1,352,753	674,426
Committed	-	-	-	-
Unassigned (deficit)	-	-	-	-
Total fund balances	4,120,080	23,153	1,352,753	674,426
Total liabilities, deferred inflows of resources and fund balances	\$ 4,120,830	\$ 23,153	\$ 4,761,133	\$ 691,849

CITY OF ESCONDIDO
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Capital Projects			Permanent
	General Capital Projects	County Transportation Street Projects	Public Facilities	Daley Ranch
ASSETS				
Cash and investments	\$ 1,666,328	\$ 10,783	\$ 6,730,829	\$ 338,929
Cash and investments with fiscal agent	-	-	-	-
Receivable:				
Accounts	-	-	-	-
Interest	6,725	-	28,078	1,508
Taxes	-	-	-	-
Loans	-	-	-	-
Due from other governments	-	142,663	-	-
Due from Successor Agency	-	-	-	-
Inventory	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	-	-	-
Advances to other funds	-	-	90,000	-
Total assets	<u>\$ 1,673,053</u>	<u>\$ 153,446</u>	<u>\$ 6,848,907</u>	<u>\$ 340,437</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 121,069	\$ 283,340	\$ 20,450	-
Deposits payable	174,868	-	-	-
Retention payable	-	250,850	-	-
Accrued expenditures	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	-	-	-	-
Unearned revenues	-	-	-	-
Advances from other funds	-	-	-	-
Total liabilities	<u>295,937</u>	<u>534,190</u>	<u>20,450</u>	<u>-</u>
Deferred inflows of resources:				
Unavailable revenue	-	124,750	-	-
Total deferred inflows of resources	<u>-</u>	<u>124,750</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable	-	-	-	340,437
Restricted	678,955	-	6,828,457	-
Committed	698,161	-	-	-
Unassigned (deficit)	-	(505,494)	-	-
Total fund balances	<u>1,377,116</u>	<u>(505,494)</u>	<u>6,828,457</u>	<u>340,437</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,673,053</u>	<u>\$ 153,446</u>	<u>\$ 6,848,907</u>	<u>\$ 340,437</u>

CITY OF ESCONDIDO
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2018

	Total Nonmajor Governmental Funds
ASSETS	
Cash and investments	\$ 30,052,306
Cash and investments with fiscal agent	22
Receivable:	
Accounts	125,511
Interest	5,054,867
Taxes	37,746
Loans	17,797,921
Due from other governments	2,838,511
Due from Successor Agency	1,003,953
Inventory	14,325
Prepaid items	18,858
Deposits	100,935
Advances to other funds	290,000
Total assets	\$ 57,334,955
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 1,103,635
Deposits payable	2,544,361
Retention payable	286,272
Accrued expenditures	87,236
Due to other funds	144,437
Due to other governments	469,988
Unearned revenues	419,604
Advances from other funds	159,250
Total liabilities	5,214,783
Deferred inflows of resources:	
Unavailable revenue	7,485,429
Total deferred inflows of resources	7,485,429
Fund balances:	
Nonspendable	373,620
Restricted	44,910,901
Committed	698,161
Unassigned (deficit)	(1,347,939)
Total fund balances	44,634,743
Total liabilities, deferred inflows of resources and fund balances	\$ 57,334,955

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue			
	Street	Community Services	Community Development Block Grant	Landscape and Assessment District
REVENUES:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	4,107,950	841,341	1,595,073	-
Charges for services	1,212,156	2,239,532	-	-
Special assessments	-	-	-	797,529
Investment income	72,010	(5,733)	-	18,811
Miscellaneous	-	2,446	10,199	9,555
Total revenues	<u>5,392,116</u>	<u>3,077,586</u>	<u>1,605,272</u>	<u>825,895</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	1,497,009	-	-	768,201
Community services	-	1,680,509	896,295	-
Community development	-	-	-	-
Capital outlay	1,129,991	45,917	715,573	-
Debt services:				
Principal retirements	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>2,627,000</u>	<u>1,726,426</u>	<u>1,611,868</u>	<u>768,201</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,765,116</u>	<u>1,351,160</u>	<u>(6,596)</u>	<u>57,694</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	314,440	-	-
Transfers out	(2,055,000)	(409,743)	-	-
Total other financing sources (uses)	<u>(2,055,000)</u>	<u>(95,303)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	710,116	1,255,857	(6,596)	57,694
FUND BALANCES:				
Beginning of year	5,835,566	3,043,210	24,366	1,366,645
End of year	<u>\$ 6,545,682</u>	<u>\$ 4,299,067</u>	<u>\$ 17,770</u>	<u>\$ 1,424,339</u>

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue			
	Law Enforcement	HOME	Miscellaneous	Vehicle Parking District
REVENUES:				
Other taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	1,593,406	82,074	225,799	-
Charges for services	-	-	281,055	-
Special assessments	-	-	-	-
Investment income	6,850	92,299	40,484	193
Miscellaneous	-	11,415	5,631	-
Total revenues	<u>1,600,256</u>	<u>185,788</u>	<u>552,969</u>	<u>193</u>
EXPENDITURES:				
Current:				
General government	-	-	69,683	-
Public safety	1,707,047	-	-	-
Public works	-	-	15,072	94,120
Community services	-	-	63,472	-
Community development	-	68,285	57,290	-
Capital outlay	105,439	-	69,660	-
Debt services:				
Principal retirements	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>1,812,486</u>	<u>68,285</u>	<u>275,177</u>	<u>94,120</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(212,230)</u>	<u>117,503</u>	<u>277,792</u>	<u>(93,927)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	95,430
Transfers out	-	-	(1,795)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,795)</u>	<u>95,430</u>
NET CHANGE IN FUND BALANCES	(212,230)	117,503	275,997	1,503
FUND BALANCES:				
Beginning of year	(6,155)	18,345,843	240,059	(625,563)
End of year	<u>\$ (218,385)</u>	<u>\$ 18,463,346</u>	<u>\$ 516,056</u>	<u>\$ (624,060)</u>

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Debt Service		Capital Projects	
	General Obligation	Golf Course	Street Improvement	Storm Drain
REVENUES:				
Other taxes	\$ 4,742,332	\$ -	\$ -	\$ -
Intergovernmental	-	-	2,040,728	-
Charges for services	-	-	-	476,228
Special assessments	-	-	-	-
Investment income	(11,835)	250	24,294	9,061
Miscellaneous	-	-	-	-
Total revenues	<u>4,730,497</u>	<u>250</u>	<u>2,065,022</u>	<u>485,289</u>
EXPENDITURES:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	482,402	314,071
Community services	-	-	-	-
Community development	-	-	-	-
Capital outlay	-	-	2,122,939	108,023
Debt services:				
Principal retirements	1,780,000	230,000	-	-
Interest and fiscal charges	2,952,697	135,460	-	-
Total expenditures	<u>4,732,697</u>	<u>365,460</u>	<u>2,605,341</u>	<u>422,094</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(2,200)</u>	<u>(365,210)</u>	<u>(540,319)</u>	<u>63,195</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	368,850	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>368,850</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(2,200)	3,640	(540,319)	63,195
FUND BALANCES:				
Beginning of year	4,122,280	19,513	1,893,072	611,231
End of year	<u>\$ 4,120,080</u>	<u>\$ 23,153</u>	<u>\$ 1,352,753</u>	<u>\$ 674,426</u>

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Capital Projects			Permanent
	General Capital Projects	County Transportation Street Projects	Public Facilities	Daley Ranch
REVENUES:				
Other taxes	\$ -	\$ 5,526,934	\$ -	\$ -
Intergovernmental	260,610	186,966	2,309,979	-
Charges for services	-	-	-	1,945
Special assessments	-	-	-	-
Investment income	23,576	2,080	(14,709)	4,902
Miscellaneous	-	-	-	-
Total revenues	284,186	5,715,980	2,295,270	6,847
EXPENDITURES:				
Current:				
General government	51,593	-	15,274	-
Public safety	-	-	-	-
Public works	8,854	4,640,643	2,105	-
Community services	-	-	197,294	-
Community development	346,113	-	-	-
Capital outlay	2,705,345	3,211,981	307,622	-
Debt services:				
Principal retirements	-	-	67,263	-
Interest and fiscal charges	-	-	18,900	-
Total expenditures	3,111,905	7,852,624	608,458	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,827,719)	(2,136,644)	1,686,812	6,847
OTHER FINANCING SOURCES (USES)				
Transfers in	2,292,538	-	27,497	-
Transfers out	(27,497)	-	(95,600)	-
Total other financing sources (uses)	2,265,041	-	(68,103)	-
NET CHANGE IN FUND BALANCES	(562,678)	(2,136,644)	1,618,709	6,847
FUND BALANCES:				
Beginning of year	1,939,794	1,631,150	5,209,748	333,590
End of year	<u>\$ 1,377,116</u>	<u>\$ (505,494)</u>	<u>\$ 6,828,457</u>	<u>\$ 340,437</u>

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Total Nonmajor Governmental Funds
REVENUES:	
Other taxes	\$ 10,269,266
Intergovernmental	13,243,926
Charges for services	4,210,916
Special assessments	797,529
Investment income	262,533
Miscellaneous	39,246
Total revenues	28,823,416
EXPENDITURES:	
Current:	
General government	136,550
Public safety	1,707,047
Public works	7,822,477
Community services	2,837,570
Community development	471,688
Capital outlay	10,522,490
Debt services:	
Principal retirements	2,077,263
Interest and fiscal charges	3,107,057
Total expenditures	28,682,142
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	141,274
OTHER FINANCING SOURCES (USES)	
Transfers in	3,098,755
Transfers out	(2,589,635)
Total other financing sources (uses)	509,120
NET CHANGE IN FUND BALANCES	650,394
FUND BALANCES:	
Beginning of year	43,984,349
End of year	\$ 44,634,743

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Street Special Revenue Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Intergovernmental	\$ 4,197,800	\$ 4,107,950	\$ (89,850)
Charges for services	1,911,000	1,212,156	(698,844)
Investment income	30,685	72,010	41,325
Total revenues	<u>6,139,485</u>	<u>5,392,116</u>	<u>(747,369)</u>
EXPENDITURES:			
Current:			
Public works	2,630,678	1,497,009	(1,133,669)
Community development	592,372	-	(592,372)
Capital outlay	5,933,410	1,129,991	(4,803,419)
Total expenditures	<u>9,156,460</u>	<u>2,627,000</u>	<u>(6,529,460)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,016,975)</u>	<u>2,765,116</u>	<u>(5,782,091)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(2,055,000)</u>	<u>(2,055,000)</u>	-
Total other financing sources (uses)	<u>(2,055,000)</u>	<u>(2,055,000)</u>	-
NET CHANGE IN FUND BALANCE	(5,071,975)	710,116	(5,782,091)
FUND BALANCE:			
Beginning of year	<u>5,835,566</u>	<u>5,835,566</u>	-
End of year	<u>\$ 763,591</u>	<u>\$ 6,545,682</u>	<u>\$ (5,782,091)</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Community Services Special Revenue Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Intergovernmental	\$ 921,200	\$ 841,341	\$ (79,859)
Charges for services	3,287,870	2,239,532	(1,048,338)
Investment income	15,100	(5,733)	(20,833)
Miscellaneous	-	2,446	2,446
Total revenues	<u>4,224,170</u>	<u>3,077,586</u>	<u>(1,146,584)</u>
EXPENDITURES:			
Current:			
Community services	1,721,790	1,680,509	(41,281)
Capital outlay	4,308,371	45,917	(4,262,454)
Total expenditures	<u>6,030,161</u>	<u>1,726,426</u>	<u>(4,303,735)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,805,991)</u>	<u>1,351,160</u>	<u>(3,157,151)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	314,440	314,440	-
Total other financing sources (uses)	<u>314,440</u>	<u>(95,303)</u>	<u>(409,743)</u>
NET CHANGE IN FUND BALANCE	(1,491,551)	1,255,857	(3,566,894)
FUND BALANCE:			
Beginning of year	3,043,210	3,043,210	-
End of year	<u>\$ 1,551,659</u>	<u>\$ 4,299,067</u>	<u>\$ (3,566,894)</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Intergovernmental	\$ 1,588,665	\$ 1,595,073	\$ 6,408
Miscellaneous	-	10,199	10,199
Total revenues	<u>1,588,665</u>	<u>1,605,272</u>	<u>16,607</u>
EXPENDITURES:			
Current:			
Community services	933,979	896,295	(37,684)
Community development	137,751	-	(137,751)
Capital outlay	<u>2,373,145</u>	<u>715,573</u>	<u>(1,657,572)</u>
Total expenditures	<u>3,444,875</u>	<u>1,611,868</u>	<u>(1,833,007)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,856,210)</u>	<u>(6,596)</u>	<u>(1,849,614)</u>
NET CHANGE IN FUND BALANCE	(1,856,210)	(6,596)	(1,849,614)
FUND BALANCE:			
Beginning of year	<u>24,366</u>	<u>24,366</u>	<u>-</u>
End of year	<u>\$ (1,831,844)</u>	<u>\$ 17,770</u>	<u>\$ (1,849,614)</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Landscape and Assessment District Special Revenue Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Special assessments	\$ 797,050	\$ 797,529	\$ 479
Investment income	595	18,811	18,216
Miscellaneous	6,455	9,555	3,100
Total revenues	<u>804,100</u>	<u>825,895</u>	<u>21,795</u>
EXPENDITURES:			
Current:			
Public works	<u>1,053,275</u>	<u>768,201</u>	<u>(285,074)</u>
Total expenditures	<u>1,053,275</u>	<u>768,201</u>	<u>(285,074)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(249,175)</u>	<u>57,694</u>	<u>(306,869)</u>
NET CHANGE IN FUND BALANCE	(249,175)	57,694	(306,869)
FUND BALANCE:			
Beginning of year	<u>1,366,645</u>	<u>1,366,645</u>	<u>-</u>
End of year	<u>\$ 1,117,470</u>	<u>\$ 1,424,339</u>	<u>\$ (306,869)</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
HOME Special Revenue Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Intergovernmental	\$ 464,730	\$ 82,074	\$ (382,656)
Investment income	10,000	92,299	82,299
Miscellaneous	-	11,415	11,415
Total revenues	<u>474,730</u>	<u>185,788</u>	<u>(288,942)</u>
EXPENDITURES:			
Current:			
Community development	93,105	68,285	(24,820)
Total expenditures	<u>93,105</u>	<u>68,285</u>	<u>(24,820)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>381,625</u>	<u>117,503</u>	<u>(313,762)</u>
NET CHANGE IN FUND BALANCE	381,625	117,503	(313,762)
FUND BALANCE:			
Beginning of year	18,345,843	18,345,843	-
End of year	<u>\$ 18,727,468</u>	<u>\$ 18,463,346</u>	<u>\$ (313,762)</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Miscellaneous Special Revenue Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Intergovernmental	\$ 1,343,391	\$ 225,799	\$ (1,117,592)
Charges for services	490,000	281,055	(208,945)
Investment income	37,080	40,484	3,404
Miscellaneous	5,211	5,631	420
Total revenues	<u>1,875,682</u>	<u>552,969</u>	<u>(1,322,713)</u>
EXPENDITURES:			
Current:			
General government	75,000	69,683	(5,317)
Public works	25,000	15,072	(9,928)
Community services	1,339,985	63,472	(1,276,513)
Community development	519,465	57,290	(462,175)
Capital outlay	93,355	69,660	(23,695)
Total expenditures	<u>2,052,805</u>	<u>275,177</u>	<u>(1,777,628)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(177,123)</u>	<u>277,792</u>	<u>(454,915)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	(1,795)	(1,795)	-
Total other financing sources (uses)	<u>(1,795)</u>	<u>(1,795)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(178,918)	275,997	(454,915)
FUND BALANCE:			
Beginning of year	240,059	240,059	-
End of year	<u>\$ 61,141</u>	<u>\$ 516,056</u>	<u>\$ (454,915)</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Vehicle Parking District Special Revenue Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Investment income	\$ -	\$ 193	\$ 193
Total revenues	<u>-</u>	<u>193</u>	<u>193</u>
EXPENDITURES:			
Current:			
Public works	95,430	94,120	(1,310)
Total expenditures	<u>95,430</u>	<u>94,120</u>	<u>(1,310)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(95,430)</u>	<u>(93,927)</u>	<u>(1,503)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	95,430	95,430	-
Total other financing sources (uses)	<u>95,430</u>	<u>95,430</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	1,503	(1,503)
FUND BALANCE:			
Beginning of year	(625,563)	(625,563)	-
End of year	<u>\$ (625,563)</u>	<u>\$ (624,060)</u>	<u>\$ (1,503)</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
General Obligation Debt Service Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Other taxes	\$ 4,714,900	\$ 4,742,332	\$ 27,432
Investment income	20,050	(11,835)	(31,885)
Total revenues	<u>4,734,950</u>	<u>4,730,497</u>	<u>(4,453)</u>
EXPENDITURES:			
Debt services:			
Principal retirements	1,780,000	1,780,000	-
Interest and fiscal charges	2,952,900	2,952,697	(203)
Total expenditures	<u>4,732,900</u>	<u>4,732,697</u>	<u>(203)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,050</u>	<u>(2,200)</u>	<u>4,250</u>
NET CHANGE IN FUND BALANCE	2,050	(2,200)	4,250
FUND BALANCE:			
Beginning of year	4,122,280	4,122,280	-
End of year	<u>\$ 4,124,330</u>	<u>\$ 4,120,080</u>	<u>\$ 4,250</u>

CITY OF ESCONDIDO
Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
Golf Course Debt Service Fund
For the Year Ended June 30, 2018

	Final Budget Amounts	Actual	Variance Over (Under)
REVENUES:			
Investment income	\$ 100	\$ 250	\$ 150
Total revenues	<u>100</u>	<u>250</u>	<u>150</u>
EXPENDITURES:			
Debt services:			
Principal retirements	230,000	230,000	-
Interest and fiscal charges	138,950	135,460	(3,490)
Total expenditures	<u>368,950</u>	<u>365,460</u>	<u>(3,490)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(368,850)</u>	<u>(365,210)</u>	<u>(3,640)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	368,850	368,850	-
Total other financing sources (uses)	<u>368,850</u>	<u>368,850</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	3,640	(3,640)
FUND BALANCE:			
Beginning of year	19,513	19,513	-
End of year	<u>\$ 19,513</u>	<u>\$ 23,153</u>	<u>\$ (3,640)</u>

CITY OF ESCONDIDO 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.

CITY OF ESCONDIDO
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, 2018

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services	Office Automation
ASSETS				
Current Assets:				
Cash and investments	\$ -	\$ 7,388,147	\$ 784,580	\$ 499,602
Receivables (Net):				
Accounts	-	-	-	-
Interest	-	33,094	3,551	1,798
Inventory	66,215	83,783	280,253	-
Deposits	-	-	-	-
Total Current Assets	<u>66,215</u>	<u>7,505,024</u>	<u>1,068,384</u>	<u>501,400</u>
Noncurrent Assets:				
Capital assets:				
Being depreciated, net	1,316,091	6,925,184	43,463	67,875
Total Noncurrent Assets	<u>1,316,091</u>	<u>6,925,184</u>	<u>43,463</u>	<u>67,875</u>
Total Assets	<u>1,382,306</u>	<u>14,430,208</u>	<u>1,111,847</u>	<u>569,275</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	871,521	553,462	204,995	532,576
Total Deferred Outflows of Resources	<u>871,521</u>	<u>553,462</u>	<u>204,995</u>	<u>532,576</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	234,196	475,557	72,714	3,716
Accrued expenses	47,725	25,519	12,424	33,855
Due to other funds	175,238	-	-	-
Long-term debt, due within one year	108,855	181,222	1,619	-
Total Current Liabilities	<u>566,014</u>	<u>682,298</u>	<u>86,757</u>	<u>37,571</u>
Noncurrent Liabilities:				
Aggregate net pension liabilities	3,963,480	2,557,639	774,027	2,613,397
Long-term debt, due in more than one year	433,059	422,415	14,570	-
Total Noncurrent Liabilities	<u>4,396,539</u>	<u>2,980,054</u>	<u>788,597</u>	<u>2,613,397</u>
Total Liabilities	<u>4,962,553</u>	<u>3,662,352</u>	<u>875,354</u>	<u>2,650,968</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	24,380	20,277	6,756	18,370
Total Deferred Inflows of Resources	<u>24,380</u>	<u>20,277</u>	<u>6,756</u>	<u>18,370</u>
NET POSITION				
Net investment in capital assets	1,316,091	6,385,442	43,463	67,875
Unrestricted (deficit)	(4,049,197)	4,915,599	391,269	(1,635,362)
Total Net Position	<u>\$ (2,733,106)</u>	<u>\$ 11,301,041</u>	<u>\$ 434,732</u>	<u>\$ (1,567,487)</u>

CITY OF ESCONDIDO
Combining Statement of Net Position (Continued)
Internal Service Funds
June 30, 2018

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
ASSETS				
Current Assets:				
Cash and investments	\$ 8,546,641	\$ 7,225,710	\$ 1,823,003	\$ 26,267,683
Receivables (Net):				
Accounts	-	-	25,218	25,218
Interest	37,651	32,104	6,217	114,415
Inventory	-	-	-	430,251
Deposits	250,000	-	62,600	312,600
Total Current Assets	8,834,292	7,257,814	1,917,038	27,150,167
Noncurrent Assets:				
Capital assets:				
Being depreciated, net	-	-	-	8,352,613
Total Noncurrent Assets	-	-	-	8,352,613
Total Assets	8,834,292	7,257,814	1,917,038	35,502,780
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	50,869	-	121,037	2,334,460
Total Deferred Outflows of Resources	50,869	-	121,037	2,334,460
LIABILITIES				
Current Liabilities:				
Accounts payable	25,861	12,319	74,776	899,139
Accrued expenses	3,449	-	37,065	160,037
Due to other funds	-	-	-	175,238
Long-term debt, due within one year	2,867,656	497,280	841	3,657,473
Total Current Liabilities	2,896,966	509,599	112,682	4,891,887
Noncurrent Liabilities:				
Aggregate net pension liabilities	247,089	-	509,816	10,665,448
Long-term debt, due in more than one year	11,471,905	1,989,120	7,568	14,338,637
Total Noncurrent Liabilities	11,718,994	1,989,120	517,384	25,004,085
Total Liabilities	14,615,960	2,498,719	630,066	29,895,972
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	2,342	-	2,821	74,946
Total Deferred Inflows of Resources	2,342	-	2,821	74,946
NET POSITION				
Net investment in capital assets	-	-	-	7,812,871
Unrestricted (deficit)	(5,733,141)	4,759,095	1,405,188	53,451
Total Net Position	\$ (5,733,141)	\$ 4,759,095	\$ 1,405,188	\$ 7,866,322

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Year Ended June 30, 2018

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services	Office Automation
Operating Revenues:				
Charges for services	\$ 4,788,133	\$ 5,781,370	\$ 1,413,618	\$ 1,638,090
Total Operating Revenues	<u>4,788,133</u>	<u>5,781,370</u>	<u>1,413,618</u>	<u>1,638,090</u>
Operating Expenses:				
Personnel services	2,346,337	1,263,966	503,305	1,122,467
Administrative expenses	(14,252)	12,100	73,680	-
Benefit claims	-	-	-	-
Supplies	115,758	133,140	87,043	18,189
Repairs and maintenance	308,239	852,468	100,671	7,461
Depreciation	144,592	3,139,081	20,104	36,882
Utilities	1,006,473	8,331	371,992	15,259
Fuel	-	1,004,497	-	-
Professional services	1,535,491	56,353	237,156	14,996
Insurance premiums	50,180	39,575	14,030	12,855
Rent	1,879	-	-	-
Other	(5,387)	148,430	77,519	345,303
Total Operating Expenses	<u>5,489,310</u>	<u>6,657,941</u>	<u>1,485,500</u>	<u>1,573,412</u>
Operating Income (Loss)	<u>(701,177)</u>	<u>(876,571)</u>	<u>(71,882)</u>	<u>64,678</u>
Nonoperating Revenues (Expenses):				
Investment income	(253)	9,085	11,806	6,076
Interest and fiscal charges	(18,125)	(20,439)	-	-
Miscellaneous	3,732	258,885	1,998	2,628
Total Nonoperating Revenues (Expenses)	<u>(14,646)</u>	<u>247,531</u>	<u>13,804</u>	<u>8,704</u>
Income Before Transfers and Capital Contributions	<u>(715,823)</u>	<u>(629,040)</u>	<u>(58,078)</u>	<u>73,382</u>
Transfers in	300,000	60,000	-	-
Transfers (out)	-	-	(76,045)	-
Capital Contributions:				
Developer contributions	41,966	107,457	-	-
Total Transfers and Capital Contributions	<u>341,966</u>	<u>167,457</u>	<u>(76,045)</u>	<u>-</u>
Changes in Net Position	<u>(373,857)</u>	<u>(461,583)</u>	<u>(134,123)</u>	<u>73,382</u>
Net Position at Beginning of Year	<u>(2,359,249)</u>	<u>11,762,624</u>	<u>568,855</u>	<u>(1,640,869)</u>
Net Position at End of Year	<u>\$ (2,733,106)</u>	<u>\$ 11,301,041</u>	<u>\$ 434,732</u>	<u>\$ (1,567,487)</u>

CITY OF ESCONDIDO
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position (Continued)
Internal Service Funds
For the Year Ended June 30, 2018

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
Operating Revenues:				
Charges for services	\$ 3,818,109	\$ 2,646,444	\$ 11,202,828	\$ 31,288,592
Total Operating Revenues	<u>3,818,109</u>	<u>2,646,444</u>	<u>11,202,828</u>	<u>31,288,592</u>
Operating Expenses:				
Personnel services	108,468	-	347,725	5,692,268
Administrative expenses	319,890	1,440,140	163,405	1,994,963
Benefit claims	2,190,673	-	704,172	2,894,845
Supplies	1,287	1,595	1,340	358,352
Repairs and maintenance	-	-	-	1,268,839
Depreciation	-	-	-	3,340,659
Utilities	1,085	-	6,630	1,409,770
Fuel	-	-	-	1,004,497
Professional services	1,569,992	827,410	162,480	4,403,878
Insurance premiums	691,830	-	9,794,174	10,602,644
Rent	-	-	-	1,879
Other	7,608	12,268	65,723	651,464
Total Operating Expenses	<u>4,890,833</u>	<u>2,281,413</u>	<u>11,245,649</u>	<u>33,624,058</u>
Operating Income (Loss)	<u>(1,072,724)</u>	<u>365,031</u>	<u>(42,821)</u>	<u>(2,335,466)</u>
Nonoperating Revenues (Expenses):				
Investment income	13,651	22,852	17,901	81,118
Interest and fiscal charges	-	-	-	(38,564)
Miscellaneous	-	-	56,544	323,787
Total Nonoperating Revenues (Expenses)	<u>13,651</u>	<u>22,852</u>	<u>74,445</u>	<u>366,341</u>
Income Before Transfers and Capital Contributions	<u>(1,059,073)</u>	<u>387,883</u>	<u>31,624</u>	<u>(1,969,125)</u>
Transfers in	-	-	-	360,000
Transfers (out)	-	-	-	(76,045)
Capital Contributions:				
Developer contributions	-	-	-	149,423
Total Transfers and Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>433,378</u>
Changes in Net Position	<u>(1,059,073)</u>	<u>387,883</u>	<u>31,624</u>	<u>(1,535,747)</u>
Net Position at Beginning of Year	<u>(4,674,068)</u>	<u>4,371,212</u>	<u>1,373,564</u>	<u>9,402,069</u>
Net Position at End of Year	<u>\$ (5,733,141)</u>	<u>\$ 4,759,095</u>	<u>\$ 1,405,188</u>	<u>\$ 7,866,322</u>

CITY OF ESCONDIDO
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2018

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services	Office Automation
Cash Flows from Operating Activities:				
Cash received from customers	\$ 4,788,133	\$ 5,781,370	\$ 1,413,618	\$ 1,638,090
Cash paid to employees for services	(2,087,008)	(1,197,786)	(494,434)	(1,042,572)
Cash paid to other suppliers of goods and services	(2,941,815)	(2,241,052)	(922,831)	(427,660)
Cash from other sources	3,732	258,885	1,998	2,628
Net Cash Provided by (Used in) Operating Activities	<u>(236,958)</u>	<u>2,601,417</u>	<u>(1,649)</u>	<u>170,486</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from other funds	475,238	60,000	(76,045)	-
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>475,238</u>	<u>60,000</u>	<u>(76,045)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase and construction of capital assets	(93,196)	(1,633,717)	-	-
Capital lease payment	-	(190,374)	-	-
Principal payments on loans	(91,059)	-	-	-
Interest payments on loans	(18,127)	-	-	-
Net Cash (Used in) Capital and Related Financing Activities	<u>(202,382)</u>	<u>(1,824,091)</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities:				
Investment income	18	561	10,939	5,369
Net Cash Provided by Investing Activities	<u>18</u>	<u>561</u>	<u>10,939</u>	<u>5,369</u>
Net increase (decrease) in cash and cash equivalents	35,916	837,887	(66,755)	175,855
Cash and cash equivalents:				
Beginning of year	(35,916)	6,550,260	851,335	323,747
End of year	<u>\$ -</u>	<u>\$ 7,388,147</u>	<u>\$ 784,580</u>	<u>\$ 499,602</u>

CITY OF ESCONDIDO
Combining Statement of Cash Flows (Continued)
Internal Service Funds
For the Year Ended June 30, 2018

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
Cash Flows from Operating Activities:				
Cash received from customers	\$ 3,818,109	\$ 2,646,444	\$ 11,219,408	\$ 31,305,172
Cash paid to employees for services	(425,884)	(1,440,140)	(463,080)	(7,150,904)
Cash paid to other suppliers of goods and services	(3,048,920)	(1,769,953)	(10,684,611)	(22,036,842)
Cash from other sources	-	-	56,544	323,787
Net Cash Provided by (Used in) Operating Activities	<u>343,305</u>	<u>(563,649)</u>	<u>128,261</u>	<u>2,441,213</u>
Cash Flows from Noncapital Financing Activities:				
Cash received from other funds	-	-	-	459,193
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>459,193</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase and construction of capital assets	-	-	-	(1,726,913)
Capital lease payment	-	-	-	(190,374)
Principal payments on loans	-	-	-	(91,059)
Interest payments on loans	-	-	-	(18,127)
Net Cash (Used in) Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,026,473)</u>
Cash Flows from Investing Activities:				
Investment income	4,738	11,271	16,096	48,992
Net Cash Provided by (Used for) Investing Activities	<u>4,738</u>	<u>11,271</u>	<u>16,096</u>	<u>48,992</u>
Net increase (decrease) in cash and cash equivalents	348,043	(552,378)	144,357	922,925
Cash and cash equivalents:				
Beginning of year	8,198,598	7,778,088	1,678,646	25,344,758
End of year	<u>\$ 8,546,641</u>	<u>\$ 7,225,710</u>	<u>\$ 1,823,003</u>	<u>\$ 26,267,683</u>

CITY OF ESCONDIDO
Combining Statement of Cash Flows (Continued)
Internal Service Funds
For the Year Ended June 30, 2018

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services	Office Automation
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	\$ (701,177)	\$ (876,571)	\$ (71,882)	\$ 64,678
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	144,592	3,139,081	20,104	36,882
Pension expense	250,882	83,288	75,794	72,040
Cash from other sources	3,732	258,885	1,998	2,628
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:				
Accounts receivable	-	-	-	-
Inventories	14,549	(35,565)	(14,789)	-
Accounts payable	56,269	37,307	(19,631)	(13,597)
Accrued expenses	1,594	(5,318)	3,756	7,855
Compensated absences	(7,399)	310	3,001	-
Estimated claims payable	-	-	-	-
Total adjustments	<u>464,219</u>	<u>3,477,988</u>	<u>70,233</u>	<u>105,808</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (236,958)</u>	<u>\$ 2,601,417</u>	<u>\$ (1,649)</u>	<u>\$ 170,486</u>
Noncash Investing, Capital and Financing Activities:				
Contributed property, plant and equipment	\$ 41,966	\$ 107,457	\$ -	\$ -
Total noncash investing, capital and financing activities	<u>\$ 41,966</u>	<u>\$ 107,457</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ESCONDIDO
Combining Statement of Cash Flows (Continued)
Internal Service Funds
For the Year Ended June 30, 2018

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Operating income (loss)	\$ (1,072,724)	\$ 365,031	\$ (42,821)	\$ (2,335,466)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	-	-	-	3,340,659
Pension expense	(2,059)	-	43,566	523,511
Cash from other sources			56,544	323,787
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:				
Accounts receivable	-	-	16,580	16,580
Inventories	-	-	-	(35,805)
Accounts payable	23,055	5,820	59,456	148,679
Accrued expenses	3,031	-	(6,140)	4,778
Compensated absences	1,502	-	1,076	(1,510)
Estimated claims payable	1,390,500	(934,500)	-	456,000
Total adjustments	1,416,029	(928,680)	171,082	4,776,679
Net Cash Provided by (Used in) Operating Activities	\$ 343,305	\$ (563,649)	\$ 128,261	\$ 2,441,213
Noncash Investing, Capital and Financing Activities:				
Contributed property, plant and equipment	\$ -	\$ -	\$ -	\$ 149,423
Total noncash investing, capital and financing activities	\$ -	\$ -	\$ -	\$ 149,423

CITY OF ESCONDIDO 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, 2018

	Hidden Trails Community Facilities District	Eureka Ranch Community Facilities District	Auto Parkway Assessment District	Rancho San Pasqual
ASSETS				
Cash and investments	\$ 177,578	\$ 801,008	\$ 1,477	\$ 265,313
Cash and investments with fiscal agent	1	10	328,685	345,442
Receivables:				
Taxes	1,160	1,705	-	9,419
Interest	599	2,452	22	864
Total assets	<u>\$ 179,338</u>	<u>\$ 805,175</u>	<u>\$ 330,184</u>	<u>\$ 621,038</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deposits payable	-	-	-	-
Due to bondholders	179,338	805,175	330,184	621,038
Total liabilities	<u>\$ 179,338</u>	<u>\$ 805,175</u>	<u>\$ 330,184</u>	<u>\$ 621,038</u>

CITY OF ESCONDIDO
Combining Statement of Assets and Liabilities (Continued)
Agency Funds
June 30, 2018

	Deposit Trust	Total
ASSETS		
Cash and investments	\$ 10,691,517	\$ 11,936,893
Cash and investments with fiscal agent	-	674,138
Receivables:		
Taxes	-	12,284
Interest	452	4,389
Total assets	\$ 10,691,969	\$ 12,627,704
LIABILITIES		
Accounts payable	\$ 68,099	\$ 68,099
Deposits payable	10,623,870	10,623,870
Due to bondholders	-	1,935,735
Total liabilities	\$ 10,691,969	\$ 12,627,704

CITY OF ESCONDIDO
Combining Statement of Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<u>Hidden Trails Community Facilities District</u>				
ASSETS				
Cash and investments	\$ 182,185	\$ 203,111	\$ (207,718)	\$ 177,578
Cash and investments with fiscal agent	-	1	-	1
Receivables:				
Taxes	590	1,160	(590)	1,160
Interest	483	599	(483)	599
Total assets	\$ 183,258	\$ 204,871	\$ (208,791)	\$ 179,338
LIABILITIES				
Accounts payable	\$ -	\$ 204,318	\$ (204,318)	\$ -
Due to bondholders	183,258	314,872	(318,792)	179,338
Total liabilities	\$ 183,258	\$ 519,190	\$ (523,110)	\$ 179,338
<u>Eureka Ranch Community Facilities District</u>				
ASSETS				
Cash and investments	\$ 774,801	\$ 1,078,924	\$ (1,052,717)	\$ 801,008
Cash and investments with fiscal agent	-	10	-	10
Receivables:				
Taxes	7,979	1,705	(7,979)	1,705
Interest	1,850	2,452	(1,850)	2,452
Total assets	\$ 784,630	\$ 1,083,091	\$ (1,062,546)	\$ 805,175
LIABILITIES				
Accounts payable	\$ -	\$ 1,042,907	\$ (1,042,907)	\$ -
Due to bondholders	784,630	1,543,091	(1,522,546)	805,175
Total liabilities	\$ 784,630	\$ 2,585,998	\$ (2,565,453)	\$ 805,175

CITY OF ESCONDIDO
Combining Statement of Assets and Liabilities (Continued)
Agency Funds
For the Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<u>Auto Parkway Assessment District</u>				
ASSETS				
Cash and investments	\$ 321,389	\$ 3,155	\$ (323,067)	\$ 1,477
Cash and investments with fiscal agent	338,047	6,140	(15,502)	328,685
Receivables:				
Interest	767	22	(767)	22
Total assets	\$ 660,203	\$ 9,317	\$ (339,336)	\$ 330,184
LIABILITIES				
Accounts payable	\$ -	\$ 320,027	\$ (320,027)	\$ -
Due to bondholders	660,203	660,700	(990,719)	330,184
Total liabilities	\$ 660,203	\$ 980,727	\$ (1,310,746)	\$ 330,184
<u>Rancho San Pasqual</u>				
ASSETS				
Cash and investments	\$ 272,016	\$ 338,022	\$ (344,725)	\$ 265,313
Cash and investments with fiscal agent	344,218	5,458	(4,234)	345,442
Receivables:				
Taxes	888	9,419	(888)	9,419
Interest	666	864	(666)	864
Total assets	\$ 617,788	\$ 353,763	\$ (350,513)	\$ 621,038
LIABILITIES				
Accounts payable	\$ -	\$ 341,585	\$ (341,585)	\$ -
Due to bondholders	617,788	561,221	(557,971)	621,038
Total liabilities	\$ 617,788	\$ 902,806	\$ (899,556)	\$ 621,038

CITY OF ESCONDIDO
Combining Statement of Assets and Liabilities (Continued)
Agency Funds
For the Year Ended June 30, 2018

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<u>Deposit Trust</u>				
ASSETS				
Cash and investments	\$ 8,235,979	\$ 5,410,739	\$ (2,955,201)	\$ 10,691,517
Receivables:				
Interest	417	452	(417)	452
Total assets	\$ 8,236,396	\$ 5,411,191	\$ (2,955,618)	\$ 10,691,969
LIABILITIES				
Accounts payable	\$ 171,682	\$ 2,514,658	\$ (2,618,241)	\$ 68,099
Deposits payable	8,064,714	6,042,219	(3,483,063)	10,623,870
Total liabilities	\$ 8,236,396	\$ 8,556,877	\$ (6,101,304)	\$ 10,691,969
 <u>Total Agency Funds</u>				
ASSETS				
Cash and investments	\$ 9,786,370	\$ 7,033,951	\$ (4,883,428)	\$ 11,936,893
Cash and investments with fiscal agent	682,265	11,609	(19,736)	674,138
Receivables:				
Taxes	9,457	12,284	(9,457)	12,284
Interest	4,183	4,389	(4,183)	4,389
Total assets	\$ 10,482,275	\$ 7,062,233	\$ (4,916,804)	\$ 12,627,704
LIABILITIES				
Accounts payable	\$ 171,682	\$ 4,423,495	\$ (4,527,078)	\$ 68,099
Deposits payable	8,064,714	6,042,219	(3,483,063)	10,623,870
Due to bondholders	2,245,879	3,079,884	(3,390,028)	1,935,735
Total liabilities	\$ 10,482,275	\$ 13,545,598	\$ (11,400,169)	\$ 12,627,704



Statistical Section

CITY OF ESCONDIDO 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 Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	2009	2010	2011	2012	2013
Governmental Activities:					
Net investment in capital assets	\$ 198,895,947	\$ 205,646,459	\$ 222,661,354	\$ 225,296,741	\$ 211,228,317
Restricted	89,093,908	114,214,410	86,393,247	98,970,485	90,152,311
Unrestricted	65,461,162	36,921,478	40,341,057	53,862,572	27,922,604
Total Governmental Activities Net Position	\$ 353,451,017	\$ 356,782,347	\$ 349,395,658	\$ 378,129,798	\$ 329,303,232
Business-type Activities:					
Net investment in capital assets	\$ 126,868,016	\$ 130,301,709	\$ 137,189,496	\$ 138,580,703	\$ 141,057,087
Restricted	-	-	-	-	-
Unrestricted	37,096,093	46,473,299	53,436,660	56,358,559	61,147,031
Total Business-type Activities Net Position	\$ 163,964,109	\$ 176,775,008	\$ 190,626,156	\$ 194,939,262	\$ 202,204,118
Primary Government:					
Net investment in capital assets	\$ 325,763,963	\$ 335,948,168	\$ 359,850,850	\$ 363,877,444	\$ 352,285,404
Restricted	89,093,908	114,214,410	86,393,247	98,970,485	90,152,311
Unrestricted	102,557,255	83,394,777	93,777,717	110,221,131	89,069,635
Total Primary Government Activities Net Position	\$ 517,415,126	\$ 533,557,355	\$ 540,021,814	\$ 573,069,060	\$ 531,507,350

Note:

The City of Escondido implemented GASBs No. 68 and 71 for the fiscal year ended June 30, 2015 which modified the Net Position of both Governmental and Business-type Net Position

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Net Position by Component (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	2014	2015	2016	2017	2018
Governmental Activities:					
Net investment in capital assets	\$ 207,003,751	\$ 201,314,048	\$ 223,906,554	\$ 218,477,270	\$ 218,992,174
Restricted	92,356,580	90,509,538	96,530,455	100,550,008	104,851,906
Unrestricted	24,555,904	(124,495,479)	(121,164,871)	(99,262,303)	(112,191,974)
Total Governmental Activities Net Position	\$ 323,916,235	\$ 167,328,107	\$ 199,272,138	\$ 219,764,975	\$ 211,652,106
Business-type Activities:					
Net investment in capital assets	\$ 151,539,613	\$ 158,231,376	\$ 172,888,190	\$ 188,875,729	\$ 183,764,968
Restricted	-	-	-	-	3,642,092.00
Unrestricted	57,540,105	28,819,831	22,072,596	9,234,771	21,293,844
Total Business-type Activities Net Position	\$ 209,079,718	\$ 187,051,207	\$ 194,960,786	\$ 198,110,500	\$ 208,700,904
Primary Government:					
Net investment in capital assets	\$ 358,543,364	\$ 359,545,424	\$ 396,794,744	\$ 407,352,999	\$ 402,757,142
Restricted	92,356,580	90,509,538	96,530,455	100,550,008	108,493,998
Unrestricted	82,096,009	(95,675,648)	(99,092,275)	(90,027,532)	(90,898,130)
Total Primary Government Activities Net Position	\$ 532,995,953	\$ 354,379,314	\$ 394,232,924	\$ 417,875,475	\$ 420,353,010

Note:

The City of Escondido implemented GASBs No. 68 and 71 for the fiscal year ended June 30, 2015 which modified the Net Position of both Governmental and Business-type Net Position

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	2009	2010	2011	2012	2013
<u>Expenses</u>					
Governmental Activities:					
General government	\$ 8,183,784	\$ 8,058,408	\$ 8,162,775	\$ 7,923,896	\$ 6,931,282
Public safety	53,639,237	58,486,106	56,170,547	60,467,057	58,937,215
Community services	20,460,103	20,321,281	13,935,737	14,428,323	13,492,016
Public works	23,475,660	25,927,953	30,251,264	23,508,515	28,719,020
Community development	12,777,932	7,814,707	9,908,625	6,765,185	6,095,723
Interest and fiscal charges	8,050,461	7,649,971	7,459,498	5,946,168	4,038,630
Total Governmental Activities Expenses	126,587,177	128,258,426	125,888,446	119,039,144	122,533,177
Business-type Activities:					
Water	38,810,712	40,277,313	37,364,315	43,537,887	48,899,219
Wastewater	24,743,922	24,154,671	23,833,875	23,995,887	25,847,825
Total Business-type Activities Expenses	63,554,634	64,431,984	61,198,190	67,533,774	74,747,044
Total Primary Government Expenses	<u>\$ 190,141,811</u>	<u>\$ 192,690,410</u>	<u>\$ 187,086,636</u>	<u>\$ 186,572,918</u>	<u>\$ 197,280,221</u>
<u>Program Revenues</u>					
Governmental activities:					
Charges for services:					
General government	\$ 455,029	\$ 159,353	\$ 351,155	\$ 735,395	\$ 481,812
Public safety	9,980,199	9,207,628	8,273,579	8,429,675	8,322,729
Community services	6,798,670	5,625,758	3,871,455	4,158,173	4,118,332
Public works	1,253,367	1,076,721	994,907	1,160,643	1,261,705
Community development	1,128,602	1,372,001	1,154,371	820,337	914,370
Operating grants and contributions	9,728,353	14,568,341	12,988,723	13,503,657	12,507,289
Capital grants and contributions	11,779,461	14,818,607	10,550,030	5,608,064	8,528,675
Total Governmental Activities Program Revenues	41,123,681	46,828,409	38,184,220	34,415,944	36,134,912
Business-type Activities:					
Charges for services:					
Water	39,161,082	40,155,208	37,293,900	42,398,099	48,857,327
Wastewater	25,741,913	29,208,703	28,176,381	26,430,851	28,482,081
Operating grants and contributions	301,875	-	-	-	6,559
Capital grants and contributions	4,725,698	5,851,309	8,922,144	2,155,659	3,858,657
Total Business-type Activities Program Revenues	69,930,568	75,215,220	74,392,425	70,984,609	81,204,624
Total Primary Government Program Revenues	<u>\$ 111,054,249</u>	<u>\$ 122,043,629</u>	<u>\$ 112,576,645</u>	<u>\$ 105,400,553</u>	<u>\$ 117,339,536</u>

CITY OF ESCONDIDO
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	2014	2015	2016	2017	2018
<u>Expenses</u>					
Governmental Activities:					
General government	\$ 6,817,120	\$ 6,412,164	\$ 8,852,170	\$ 9,357,787	\$ 11,319,840
Public safety	64,735,010	62,464,110	65,521,010	71,876,096	80,848,786
Community services	13,824,749	12,485,541	12,559,645	12,571,637	13,453,775
Public works	22,830,644	24,390,896	20,066,941	22,107,665	25,876,603
Community development	4,442,510	4,652,366	4,643,576	5,077,618	5,516,258
Interest and fiscal charges	3,709,135	4,655,972	2,952,792	2,646,232	2,849,950
Total Governmental Activities Expenses	116,359,168	115,061,049	114,596,134	123,637,035	139,865,212
Business-type Activities:					
Water	51,937,493	51,558,727	49,844,796	57,314,740	62,431,613
Wastewater	28,748,596	29,740,987	30,565,986	32,361,361	32,843,118
Total Business-type Activities Expenses	80,686,089	81,299,714	80,410,782	89,676,101	95,274,731
Total Primary Government Expenses	\$ 197,045,257	\$ 196,360,763	\$ 195,006,916	\$ 213,313,136	\$ 235,139,943
<u>Program Revenues</u>					
Governmental activities:					
Charges for services:					
General government	\$ 1,049,402	\$ 261,135	\$ 479,655	\$ 300,203	\$ 681,369
Public safety	8,217,629	9,450,880	9,292,514	10,251,178	11,190,662
Community services	4,104,210	4,042,601	3,807,474	3,739,242	3,634,653
Public works	1,554,453	1,292,959	2,280,973	2,424,590	1,738,505
Community development	1,351,882	1,615,495	1,811,997	1,973,600	1,763,863
Operating grants and contributions	13,031,177	9,216,428	10,604,522	9,441,222	9,980,538
Capital grants and contributions	3,331,901	2,855,849	4,787,949	6,622,075	9,564,799
Total Governmental Activities Program Revenues	32,640,654	28,735,347	33,065,084	34,752,110	38,554,389
Business-type Activities:					
Charges for services:					
Water	54,411,250	54,323,287	51,055,900	55,442,545	61,551,122
Wastewater	29,413,549	32,014,382	33,594,079	34,166,698	34,464,076
Operating grants and contributions	243,302	533,816	70,130	30,832	143,298
Capital grants and contributions	1,879,809	2,972,993	1,355,692	1,766,559	7,846,908
Total Business-type Activities Program Revenues	85,947,910	89,844,478	86,075,801	91,406,634	104,005,404
Total Primary Government Program Revenues	\$ 118,588,564	\$ 118,579,825	\$ 119,140,885	\$ 126,158,744	\$ 142,559,793

(Continued)

CITY OF ESCONDIDO
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	2009	2010	2011	2012	2013
<u>Net (Expense)/Revenue</u>					
Governmental activities	\$ (85,463,496)	\$ (81,430,017)	\$ (87,704,226)	\$ (84,623,200)	\$ (86,398,265)
Business-type activities	6,375,934	10,783,236	13,194,235	3,450,835	6,457,580
Total Primary Government Net Expense	<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>General Revenues and Other</u>					
<u>Changes in Net Position</u>					
Governmental activities:					
Taxes:					
Sales taxes	\$ 18,841,244	\$ 17,826,617	\$ 20,819,517	\$ 25,532,055	\$ 24,202,373
Property taxes	37,745,185	27,884,137	28,168,365	24,060,363	16,738,501
Franchise tax	4,540,227	4,344,355	4,461,129	4,563,576	4,516,247
Payments in lieu of taxes	18,907,389	17,989,533	17,652,114	19,548,954	19,041,332
Other taxes	4,264,906	4,014,349	4,048,337	2,899,789	3,971,585
Use of money and property	6,977,368	4,654,030	4,810,578	5,885,611	3,290,477
Sale of capital assets	-	-	171,386	399,819	-
Miscellaneous	872,722	2,130,400	476,135	748,181	1,070,052
Transfers	29,200	41,330	1,248,845	25,000	25,000
Extraordinary item: Gain/(loss)	-	-	-	29,693,992	(34,948,363)
Total Governmental Activities	<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>
Business-type activities:					
Use of money and property	2,791,475	1,794,117	1,608,420	1,750,475	1,522,495
Miscellaneous	988,624	274,876	297,338	250,862	447,638
Transfers	(29,200)	(41,330)	(1,248,845)	(25,000)	(25,000)
Extraordinary item: Loss on chemical tank spill	-	-	-	(1,114,066)	-
Total Business-type Activities	<u>3,750,899</u>	<u>2,027,663</u>	<u>656,913</u>	<u>862,271</u>	<u>1,945,133</u>
Total Primary Government	<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>Change in Net Position</u>					
Governmental activities	\$ 6,714,745	\$ (2,545,266)	\$ (5,847,820)	\$ 28,734,140	\$ (48,491,061)
Business-type activities	10,126,833	12,810,899	13,851,148	4,313,106	8,402,713
Total primary government	<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>

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	2014	2015	2016	2017	2018
<u>Net (Expense)/Revenue</u>					
Governmental activities	\$ (83,718,514)	\$ (86,325,702)	\$ (81,531,050)	\$ (88,884,925)	\$ (101,310,823)
Business-type activities	5,261,821	8,544,764	5,665,019	1,730,533	9,112,999
Total Primary Government Net Expense	<u>\$ (78,456,693)</u>	<u>\$ (77,780,938)</u>	<u>\$ (75,866,031)</u>	<u>\$ (87,154,392)</u>	<u>\$ (92,197,824)</u>
<u>General Revenues and Other</u>					
<u>Changes in Net Position</u>					
Governmental activities:					
Taxes:					
Sales taxes	\$ 27,366,084	\$ 29,447,205	\$ 32,080,999	\$ 37,905,908	\$ 42,100,337
Property taxes	16,805,289	16,953,228	17,039,019	17,779,603	19,968,848
Franchise tax	4,694,252	5,147,696	6,110,634	4,997,491	6,673,212
Payments in lieu of taxes	20,075,228	20,531,727	18,648,743	13,680,629	13,140,350
Other taxes	4,218,914	4,411,676	4,616,524	5,026,190	4,352,631
Use of money and property	4,153,899	4,309,471	4,445,175	4,353,656	4,903,198
Sale of capital assets	-	138,304	173,750	-	1,449,580
Miscellaneous	892,851	362,066	564,129	3,249,318	559,798
Transfers	125,000	(54,620)	25,000	25,000	50,000
Extraordinary item: Gain/(loss)	-	-	30,722,560	22,359,967	-
Total Governmental Activities	<u>78,331,517</u>	<u>81,246,753</u>	<u>114,426,533</u>	<u>109,377,762</u>	<u>93,197,954</u>
Business-type activities:					
Use of money and property	1,577,693	1,699,516	2,043,040	1,338,109	1,350,539
Miscellaneous	161,086	176,720	226,520	106,072	176,866
Transfers	(125,000)	54,620	(25,000)	(25,000)	(50,000)
Extraordinary item: Loss on chemical tank spill	-	-	-	-	-
Total Business-type Activities	<u>1,613,779</u>	<u>1,930,856</u>	<u>2,244,560</u>	<u>1,419,181</u>	<u>1,477,405</u>
Total Primary Government	<u>\$ 79,945,296</u>	<u>\$ 83,177,609</u>	<u>\$ 116,671,093</u>	<u>\$ 110,796,943</u>	<u>\$ 94,675,359</u>
<u>Change in Net Position</u>					
Governmental activities	\$ (5,386,997)	\$ (5,078,949)	\$ 31,944,031	\$ 20,492,837	\$ (8,112,869)
Business-type activities	6,875,600	10,475,620	7,909,579	3,149,714	10,590,404
Total primary government	<u>\$ 1,488,603</u>	<u>\$ 5,396,671</u>	<u>\$ 39,853,610</u>	<u>\$ 23,642,551</u>	<u>\$ 2,477,535</u>

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2009	2010	2011	2012	2013
General Fund					
Reserved	\$ 10,763,636	\$ 10,331,307	\$ -	\$ -	\$ -
Unreserved, designated	30,001,183	21,694,390	-	-	-
Unreserved, undesignated	360,555	-	-	-	-
Nonspendable	-	-	5,456,377	5,180,347	2,503,401
Restricted	-	-	-	-	-
Committed to	-	-	28,354,588	31,938,244	17,210,596
Assigned to	-	-	713,361	852,481	980,678
Unassigned	-	-	399,790	753,121	247,130
Total General Fund	\$ 41,125,374	\$ 32,025,697	\$34,924,116	\$38,724,193	\$20,941,805
All Other Governmental Funds					
Reserved	\$ 90,244,472	\$ 91,342,926	\$ -	\$ -	\$ -
Reserved for current projects, reported in:					
Special revenue funds	4,506,647	3,005,679	-	-	-
Capital projects funds	38,533,362	9,407,468	-	-	-
Unreserved, reported in:					
Special revenue funds	1,656,500	4,762,099	-	-	-
Capital projects funds	6,609,031	8,691,702	-	-	-
Undesignated, reported in:					
Special revenue funds	612,564	1,097,044	-	-	-
Capital projects funds	-	-	-	-	-
Nonspendable	-	-	61,204,587	57,982,791	60,199,844
Restricted for	-	-	21,732,085	30,695,122	20,785,893
Committed to	-	-	8,418,117	5,208,585	2,466,775
Assigned to	-	-	774,990	447,148	159,405
Unassigned	-	-	(14,547,286)	(1,021,715)	(1,248,533)
Total All Other Governmental Funds	\$ 142,162,576	\$ 118,306,918	\$77,582,493	\$93,311,931	\$82,363,384

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.

CITY OF ESCONDIDO
Fund Balances of Governmental Funds (Continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2014	2015	2016	2017	2018
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, designated	-	-	-	-	-
Unreserved, undesignated	-	-	-	-	-
Nonspendable	217,690	183,403	179,185	9,991,902	9,991,902
Restricted	-	-	-	-	1,997,186
Committed to	17,319,659	17,281,659	16,892,319	17,921,319	17,392,319
Assigned to	897,465	681,822	941,262	1,541,101	1,762,773
Unassigned	1,753,519	-	1,961,211	1,712,930	2,839,620
Total General Fund	\$20,188,333	\$18,146,884	\$19,973,977	\$31,167,252	\$33,983,800
All Other Governmental Funds					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved for current projects, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Undesignated, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Nonspendable	-	-	-	333,590	373,620
Restricted for	81,559,045	78,261,012	84,682,384	86,075,428	87,811,164
Committed to	2,008,525	1,860,686	984,157	1,656,212	698,161
Assigned to	139,653	488	-	-	-
Unassigned	(1,149,954)	(1,184,683)	(846,790)	(1,354,541)	(1,347,939)
Total All Other Governmental Funds	\$82,557,269	\$78,937,503	\$84,819,751	\$86,710,689	\$87,535,006

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.

CITY OF ESCONDIDO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2009	2010	2011	2012	2013
<u>Revenues</u>					
Taxes	\$ 74,152,418	\$ 66,166,696	\$ 69,907,949	\$ 65,556,779	\$ 53,387,010
Licenses and permits	984,790	1,350,224	1,193,338	821,380	887,383
Fines and forfeits	2,552,099	2,186,227	1,895,447	1,640,528	1,468,309
Intergovernmental	24,161,739	26,889,870	26,688,728	27,513,328	25,945,352
Charges for services	14,518,395	12,759,043	9,976,316	10,281,595	11,335,203
Special assessments	5,560,064	5,742,487	5,759,888	5,892,241	5,958,662
Lease income	48,743	47,609	75,321	60,024	221,513
Investment income	5,993,386	2,301,810	16,367,414	1,469,849	856,466
Miscellaneous	6,211,906	8,177,104	4,253,232	4,432,737	4,645,031
Total Revenues	134,183,540	125,621,070	136,117,633	117,668,461	104,704,929
<u>Expenditures</u>					
General government	6,908,388	6,761,408	7,096,148	6,407,543	5,834,828
Public safety	54,009,216	55,863,025	52,038,011	53,083,126	55,246,097
Public works	15,116,819	15,364,185	18,146,072	12,542,175	17,392,655
Community services	17,849,432	18,114,581	12,072,344	12,016,459	11,815,547
Community development	10,003,869	5,132,958	7,165,632	4,774,106	5,331,818
Contributions to other governments	-	-	-	-	4,319,291
Capital outlay	47,671,550	28,777,524	26,536,515	9,153,723	7,794,450
Debt service:					
Principal retirements	6,233,746	9,653,787	10,760,000	10,512,620	7,528,360
Interest and fiscal charges	7,922,238	7,585,243	23,952,729	5,792,921	3,983,078
SERAF payment	-	8,556,226	1,761,576	-	-
Agency tax sharing agreement	5,448,326	3,817,295	9,101,406	5,921,213	-
Total Expenditures	171,163,584	159,626,232	168,630,433	120,203,886	119,246,124
Excess (Deficiency) of Revenues Over Expenditures	<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>Other Financing Sources (Uses)</u>					
Issuance of debt	-	-	-	224,078	4,830,000
Bond issue costs	-	-	-	-	(122,073)
Sale of capital assets	681,996	-	463,018	474,819	111,234
Transfers in	9,445,273	9,195,181	28,486,232	8,237,198	6,522,962
Transfers out	(9,416,073)	(8,873,851)	(25,059,387)	(8,062,198)	(6,673,765)
Total Other Financing Sources (Uses)	711,196	321,330	3,889,863	873,897	4,668,358
Special item:					
Extraordinary item: Gain/(loss)	-	-	-	21,191,043	(9,832,652)
Net Change in Fund Balance	\$ (36,268,848)	\$ (33,683,832)	\$ (28,622,937)	\$ 19,529,515	\$ (19,705,489)
Debt service as a percentage of noncapital expenditures	11.5%	13.2%	24.4%	14.7%	10.3%

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Changes in Fund Balances of Governmental Funds (Continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2014	2015	2016	2017	2018
<u>Revenues</u>					
Taxes	\$ 57,289,455	\$ 59,989,511	\$ 64,220,119	\$ 62,296,112	\$ 86,246,378
Licenses and permits	991,164	862,280	934,455	1,222,686	1,183,587
Fines and forfeits	1,184,292	1,151,366	1,344,221	1,186,276	1,076,387
Intergovernmental	23,708,589	22,900,854	24,648,821	23,485,944	17,091,365
Charges for services	12,513,585	13,670,047	13,509,208	16,154,072	16,305,361
Special assessments	5,796,337	5,970,331	5,567,955	5,589,696	797,529
Lease income	205,259	203,599	3,502,021	3,632,770	3,951,092
Investment income	895,826	941,778	1,245,689	540,184	481,733
Miscellaneous	4,265,979	4,544,360	1,574,553	2,298,139	467,910
Total Revenues	106,850,486	110,234,126	116,547,042	116,405,879	127,601,342
<u>Expenditures</u>					
General government	5,811,016	6,086,111	6,447,372	6,251,493	6,212,196
Public safety	57,874,021	61,843,630	64,266,503	65,038,985	67,917,569
Public works	15,189,340	17,407,197	14,442,206	16,592,694	20,020,822
Community services	12,128,504	11,744,673	12,080,978	11,825,028	12,096,472
Community development	4,238,194	4,585,497	4,985,006	5,078,286	4,944,488
Contributions to other governments	-	-	-	-	-
Capital outlay	5,550,440	2,966,301	3,919,203	6,084,281	10,522,490
Debt service:					
Principal retirements	2,528,361	74,848,007	243,360	1,592,870	2,616,218
Interest and fiscal charges	3,737,237	5,637,963	2,351,824	3,235,906	3,216,739
SERAF payment	-	-	-	-	-
Agency tax sharing agreement	-	-	-	-	-
Total Expenditures	107,057,113	185,119,379	108,736,452	115,699,543	127,546,994
Excess (Deficiency) of Revenues Over Expenditures	(206,627)	(74,885,253)	7,810,590	706,336	54,348
<u>Other Financing Sources (Uses)</u>					
Issuance of debt	-	70,660,479	-	3,230,225	2,095,893
Bond issue costs	-	-	-	-	-
Sale of capital assets	1,346,540	138,304	173,751	-	1,724,580
Transfers in	5,035,243	3,173,695	2,968,322	3,765,952	5,615,293
Transfers out	(6,734,743)	(4,748,440)	(3,243,322)	(4,450,952)	(5,849,248)
Total Other Financing Sources (Uses)	(352,960)	69,224,038	(101,249)	2,545,225	3,586,518
Special item:					
Extraordinary item: Gain/(loss)	-	-	-	9,832,652	-
Net Change in Fund Balance	\$ (559,587)	\$ (5,661,215)	\$ 7,709,341	\$ 13,084,213	\$ 3,640,866
Debt service as a percentage of noncapital expenditures	6.2%	5.4%	2.5%	4.4%	5.0%

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30	Secured ⁽¹⁾				
	Residential	Commercial	Industrial	Other	Total
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
2015	9,141,236,450	892,083,504	705,542,595	1,974,941,095	12,713,803,644
2016	9,660,263,316	929,027,539	722,758,161	2,034,053,982	13,346,102,998
2017	10,700,250,243	2,078,689,776	789,351,890	508,151,608	14,076,443,517
2018	11,429,262,692	2,231,580,409	825,162,925	546,043,980	15,032,050,006

Fiscal Year Ended June 30	Unsecured	Less: Exemptions	Taxable	Total
			Assessed Value	Direct Tax Rate
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
2015	494,147,367	(625,897,200)	12,582,053,811	0.103
2016	501,273,002	(659,335,434)	13,188,040,566	0.103
2017	505,626,175	(739,647,768)	13,842,421,924	0.103
2018	507,918,480	(756,770,988)	14,783,197,498	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.

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			
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
2015	0.103	0.103	0.710	0.157	0.030	1.000	0.127	1.127
2016	0.103	0.103	0.710	0.157	0.030	1.000	0.153	1.153
2017	0.103	0.103	0.710	0.157	0.030	1.000	0.146	1.146
2018	0.103	0.103	0.710	0.157	0.030	1.000	0.145	1.145

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	2018			2009		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value ⁽¹⁾	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value ⁽²⁾
North County Fair LLC	\$224,966,997	1	1.52 %	\$169,494,794	1	1.33 %
Prebys Conrad Trust	211,638,523	2	1.43	59,520,247	4	0.47
Emerald Glen Apts Escondido	67,607,800	3	0.46			
Latitude Del LLC	60,579,952	4	0.41			
M G Morningview Apts L P	48,250,850	5	0.33	65,707,981	2	0.52
Frit Escondido Promenade LLC	48,250,850	6	0.33			
Vons Companies Inc	47,204,597	7	0.32	50,863,448	6	0.40
Target Corp	45,395,872	8	0.31			
Stone Brewing Co	43,886,649	9	0.30			
Luna Properties LLC	42,062,718	10	0.28			
Cox Communications California				56,199,157	5	0.44
O C/S D Holdings LLC				42,965,260	7	0.34
Goal Line L P				63,276,414	3	0.50
Lowes Of Escondido				38,035,022	8	0.30
Garrick Motors Inc.				36,445,720	9	0.29
Realty Associates Fund Viii L				35,490,613	10	0.28
TOTAL	\$839,844,808		5.69 %	\$617,998,656		4.87 %

Notes:

(1) Net assessed valuation for 2017-18 is \$14,783,197,498

(2) Net assessed valuation for 2008-09 is \$12,697,185,495

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
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
2015	10,403,367	10,222,663	98.26	189,807	10,412,470	100.09
2016	10,966,106	10,779,437	98.30	165,151	10,944,588	99.80
2017	11,541,072	11,328,962	98.16	167,550	11,496,512	99.61
2018	12,210,502	12,008,665	98.35	174,069	12,182,734	99.77

Notes:

The amounts presented do not include property taxes collected for the Community Development Commission in the following amounts: 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.

Source:

County of San Diego Auditor and Controller's Office.

CITY OF ESCONDIDO
Taxable Sales by Category
Last Ten Calendar Years (First Quarter)

Category Name	2009	2010	2011	2012	2013
Apparel Stores	\$ 1,031,264	\$ 1,025,284	\$ 1,112,593	\$ 1,192,265	\$ 1,214,059
Auto Dealers & Auto Supplies	5,414,068	4,713,042	5,497,239	6,865,485	8,270,873
Building Materials	2,664,942	2,239,094	2,225,142	2,341,177	2,517,671
Drug Stores	307,487	291,320	286,391	294,923	286,535
Eating and Drinking Places	1,655,406	1,606,861	1,699,016	1,797,515	1,930,372
Food Stores	1,450,537	1,431,438	1,548,903	1,677,665	1,685,288
General Merchandise	1,951,983	1,780,708	1,793,573	1,813,724	1,892,331
Home Furnishings	278,176	267,632	375,200	438,348	420,047
Other Retail Stores	2,407,409	2,097,751	2,098,469	2,236,402	2,316,595
Packaged Liquor Stores	122,361	129,396	130,395	138,569	148,350
Service Stations	2,009,855	1,824,847	2,023,580	2,275,429	2,275,429
All Other Outlets	3,592,715	2,877,288	3,104,446	3,843,206	3,843,206
Total	\$ 22,886,203	\$ 20,284,661	\$ 21,894,947	\$ 24,914,708	\$ 26,800,756

* Due to delays in reporting by the California Department of Tax and Fee Administration, information for the first quarter of 2018 is not available.

Source:

MuniServices, LLC

CITY OF ESCONDIDO
Taxable Sales by Category (Continued)
Last Ten Calendar Years (First Quarter)

Category Name	2014	2015	2016	2017	2018*
Apparel Stores	\$ 1,174,801	\$ 1,220,743	\$ 1,262,864	\$ 1,295,718	
Auto Dealers & Auto Supplies	8,726,015	9,156,428	9,899,616	10,153,739	
Building Materials	2,608,752	2,749,821	3,010,298	3,094,261	
Drug Stores	273,719	257,581	247,569	248,626	
Eating and Drinking Places	2,066,140	2,278,362	2,424,365	2,607,915	
Food Stores	1,637,699	1,676,322	1,582,703	1,520,597	
General Merchandise	2,046,274	2,171,942	2,161,715	2,129,044	
Home Furnishings	421,285	439,984	368,248	430,421	
Other Retail Stores	2,407,117	2,509,115	2,610,069	2,469,786	
Packaged Liquor Stores	155,821	153,742	151,465	152,364	
Service Stations	2,187,304	2,109,133	1,900,476	1,753,509	
All Other Outlets	4,086,891	4,572,930	5,013,035	5,237,064	
Total	<u>\$ 27,791,818</u>	<u>\$ 29,296,103</u>	<u>\$ 30,632,423</u>	<u>\$ 31,093,044</u>	<u>\$ -</u>

* Due to delays in reporting by the California Department of Tax and Fee Administration, information for the first quarter of 2018 is not available.

Source:

MuniServices, LLC

CITY OF ESCONDIDO
Top 25 Sales Tax Producers
Current Year and Nine Years Ago

2018		2009	
<u>Business Name</u>	<u>Business Category</u>	<u>Business Name</u>	<u>Business Category</u>
7-Eleven Food Stores	Food Markets	Acura	Auto Sales - New
Apro	Energy Sales	Apro	Energy Sales
Arco AM/PM Mini Marts	Service Stations	Arco AM/PM Mini Marts	Service Stations
Brecht Mini	Auto Sales - New	Brecht Mini	Auto Sales - New
Carmax Auto Superstores	Auto Sales - Used	Escondido Jeep Eagle GMC Truck	Auto Sales - New
Escondido Jeep Eagle Gmc Truck	Auto Sales - New	Escondido Ready Mix Concrete	Bldg.Matls-Whsle
Escondido Ready Mix Concrete	Bldg.Matls-Whsle	Home Depot	Bldg.Matls-Retail
Ford Of Escondido	Auto Sales - New	Honda of Escondido	Auto Sales - New
Home Depot	Bldg.Matls-Retail	Hyundai of Escondido	Auto Sales - New
Honda	Auto Sales - New	J C Penney Company	Department Stores
Jack Powell Chrysler Plymouth	Auto Sales - New	Jack Powell Chrysler Plymouth	Auto Sales - New
Lexus Escondido	Auto Sales - New	Lowe's Home Centers	Bldg.Matls-Retail
Lowe'S Home Centers	Bldg.Matls-Retail	Macy's Department Store	Department Stores
Mercedes-Benz	Auto Sales - New	Mercedes-Benz	Auto Sales - New
Mossy Nissan	Auto Sales - New	Mossy Nissan	Auto Sales - New
Mossy Volkswagen	Auto Sales - New	Nordstrom Department Store	Department Stores
Nordstrom Department Store	Department Stores	North County Auto Center Escon	Service Stations
North County Buick Cadillac Gm	Auto Sales - New	Pine Tree Lumber	Bldg.Matls-Retail
Pine Tree Lumber	Bldg.Matls-Retail	Quality Chevrolet	Auto Sales - New
Quality Chevrolet	Auto Sales - New	Sears Roebuck & Company	Department Stores
Shell Service Stations	Service Stations	Shell Service Stations	Service Stations
Target Stores	Department Stores	Target Stores	Department Stores
Toyota Recondition Center	Auto Sales - New	Texaco Service Stations	Service Stations
Vons Service Stations	Food Markets	Toyota Recondition Center	Auto Sales - New
Wal Mart Stores	Department Stores	Vons Grocery Company	Food Markets

Note:

State law does not allow disclosure of the top ten sales tax providers to the City
Firms Listed Alphabetically

Source:

MuniServices, LLC

CITY OF ESCONDIDO
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year Ended June 30	Governmental Activities (1)						Total Governmental Activities
	General Obligation Bonds	Lease Revenue Bonds	Certificates of Participation	Tax Allocation Bonds (2)	Loans Payable	Capital Leases Payable	
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
2015	61,520,000	4,415,000	-	-	779,130	1,046,067	67,760,197
2016	61,520,000	4,200,000	-	-	666,456	874,856	67,261,312
2017	60,460,000	3,980,000	-	-	3,496,159	709,677	68,645,836
2018	58,680,000	3,750,000	-	-	3,085,997	2,348,521	67,864,518

Notes:

(1) Details regarding the City's outstanding debt can be found in Note 8 of the financial statements

(2) Debt issued by the Escondido Community Development Commission is no longer reported as a result of the dissolution of the Community Development Commission on February 1, 2012

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Ratios of Outstanding Debt by Type (Continued)
Last Ten Fiscal Years

Fiscal Year Ended June 30	Business-type Activities (1)			Total Primary Government	Percentage of Personal Income	Debt Per Capita
	Revenue COP & Lease Revenue Bonds	Loans Payable	Total Business Activities			
2009	84,450,000	27,987,565	112,437,565	279,939,706	8.14 %	1,954
2010	82,315,000	25,981,179	108,296,179	266,311,605	7.66	1,832
2011	80,095,000	26,507,579	106,602,579	254,037,635	8.97	1,750
2012	118,420,000	24,715,177	143,135,177	233,938,750	7.80	1,602
2013	115,975,000	22,585,446	138,560,446	221,290,372	7.28	1,517
2014	113,075,000	20,448,701	133,523,701	213,647,067	6.65	1,452
2015	103,970,000	18,304,767	122,274,767	190,034,964	5.82	1,290
2016	101,250,000	16,153,467	117,403,467	184,664,779	5.56	1,225
2017	98,615,000	13,994,615	112,609,615	181,255,451	5.18	1,196
2018	95,890,000	11,839,768	107,729,768	175,594,286	4.72	1,159

Notes:

(1) Details regarding the City's outstanding debt can be found in Note 8 of the financial statements

(2) Debt issued by the Escondido Community Development Commission is no longer reported as a result of the dissolution of the Community Development Commission 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		
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	0.62	507
2015	61,520,000	-	-	61,520,000	0.49	418
2016	61,520,000	-	-	61,520,000	0.47	408
2017	60,460,000	-	-	60,460,000	0.44	399
2018	58,680,000	-	-	58,680,000	0.40	387

Notes:

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Direct and Overlapping Debt
For the Year Ended June 30, 2018

2017-18 Assessed Valuation		\$ 15,189,233,752	
Redevelopment Agency Incremental Valuation		<u>3,124,136,600</u>	
Adjusted Assessed Valuation		<u>\$ 12,065,097,152</u>	
	Percentage Applicable ⁽¹⁾	Outstanding Debt 6/30/18	Estimated Share of Overlapping Debt
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	0.551 %	\$ 60,600,000	\$ 333,906
Palomar Community College District	13.096	627,826,320	82,220,135
San Marcos Unified School District School	3.522	277,826,759	9,785,058
San Marcos Unified School District School Facilities Improvement District No. 1	2.213	2,092,874	46,315
Escondido Union High School District	77.161	87,884,694	67,812,709
Escondido Union School District	77.863	141,369,622	110,074,629
San Pasqual Union School District	57.046	243,535	138,927
Palomar Pomerado Hospital District	19.108	436,358,740	83,379,428
City of Escondido	100.000	58,680,000	58,680,000
City of Escondido Community Facilities District No. 2006-01	100.000	13,005,000	13,005,000
City of Escondido Hidden Trails Community Facilities District	100.000	1,950,000	1,950,000
City of Escondido 1915 Act Bonds	100.000	<u>2,645,000</u>	<u>2,645,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>1,710,482,544</u>	<u>430,071,107</u>
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	3.063	273,220,000	8,368,729
San Diego County Pension Obligation Bonds	3.063	558,525,000	17,107,621
San Diego County Superintendent of School Obligations	3.063	10,785,000	330,345
Palomar Community College District Certificates of Participation	13.096	2,720,000	356,211
San Marcos Unified School General Fund Obligations	3.522	74,774,457	2,633,556
Escondido Union High School District Certificates of Participation	77.161	55,510,000	42,832,071
Escondido Union School District Certificates of Participation	77.863	16,525,000	12,866,861
Escondido Union School District Benefit Obligation Bonds	77.863	7,955,000	6,194,002
City of Escondido General Fund Obligation Bonds	100.000	58,680,000	58,680,000
City of Escondido General Fund Lease Revenue Bonds	100.000	3,750,000	3,750,000
City of Escondido Lease Obligations	100.000	2,348,520	2,348,520
City of Escondido Loans Obligations	100.000	3,085,997	3,085,997
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		<u>1,067,878,974</u>	<u>158,553,913</u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	100.000	7,070,000	7,070,000
TOTAL CITY DIRECT DEBT			\$ 67,864,517
TOTAL OVERLAPPING DEBT			\$ 527,830,503
TOTAL DIRECT AND OVERLAPPING DEBT			<u>\$ 595,695,020</u> ⁽²⁾

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

RATIOS TO 2017-18 ASSESSED VALUATION:

Total Overlapping Tax and Assessment Debt	2.83 %
Combined Direct Debt (\$67,864,517)	0.45
Combined Total Debt	3.92

RATIOS TO REDEVELOPMENT SUCCESSOR AGENCY INCREMENTAL VALUATION (\$3,124,136,600):

Total Overlapping Tax Increment Debt	0.23 %
--------------------------------------	--------

Source: MuniServices, LLC.

CITY OF ESCONDIDO
Legal Debt Margin Information
Last Ten Fiscal Years

	2009	2010	2011	2012	2013
Assessed valuation	\$10,419,201,152	\$ 9,608,214,935	\$9,501,563,129	\$9,663,353,864	\$9,674,335,352
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	2,604,800,288	2,402,053,734	2,375,390,782	2,415,838,466	2,418,583,838
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	390,720,043	360,308,060	356,308,617	362,375,770	362,787,576
Total Debt Applicable to Limit:					
General Obligation Bonds	81,800,000	80,360,000	78,860,000	77,295,000	75,665,000
Legal Debt Margin	<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>
Total Debt Applicable to the Limit as a Percentage of Debt Limit	21%	22%	22%	21%	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.

CITY OF ESCONDIDO
Legal Debt Margin Information (continued)
Last Ten Fiscal Years

	2014	2015	2016	2017	2018
Assessed valuation	\$9,841,518,516	\$10,389,492,632	\$10,901,050,697	\$11,397,164,781	\$12,065,097,152
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	2,460,379,629	2,597,373,158	2,725,262,674	2,849,291,195	3,016,274,288
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	369,056,944	389,605,974	408,789,401	427,393,679	452,441,143.20
Total Debt Applicable to Limit:					
General Obligation Bonds	73,965,000	61,520,000	61,520,000	60,460,000	58,680,000
Legal Debt Margin	<u>\$ 295,091,944</u>	<u>\$ 328,085,974</u>	<u>\$ 347,269,401</u>	<u>\$ 366,933,679</u>	<u>\$ 393,761,143</u>
Total Debt Applicable to the Limit as a Percentage of Debt Limit	20%	16%	15%	14%	13%

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.

CITY OF ESCONDIDO
Pledged-Revenue Coverage
Last Ten Fiscal Years

2001 Lease Revenue Bonds

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 347,190	-	\$ 347,190	\$ 70,000	\$ 277,190	\$ 347,190	1.00
2010	354,300	-	354,300	80,000	274,300	354,300	1.00
2011	360,940	-	360,940	90,000	270,940	360,940	1.00
2012	367,015	-	367,015	100,000	267,015	367,015	1.00
2013	404,925	-	404,925	115,000	289,925	404,925	1.00
2014	-	-	-	-	-	-	-
2015	-	-	-	-	-	-	-
2016	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-

2013A Lease Revenue Refunding Bonds

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	-	-	-	-	-	-	-
2010	-	-	-	-	-	-	-
2011	-	-	-	-	-	-	-
2012	-	-	-	-	-	-	-
2013	404,925	-	404,925	-	-	-	n/a
2014	359,714	-	359,714	205,000	154,714	359,714	1.00
2015	359,268	-	359,268	210,000	149,268	359,268	1.00
2016	360,019	-	360,019	215,000	145,019	360,019	1.00
2017	359,569	-	359,569	220,000	139,569	359,569	1.00
2018	362,819	-	362,819	230,000	132,819	362,819	1.00

1993 Certificates of Participation

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 679,352	-	\$ 679,352	\$ 395,000	\$ 284,352	\$ 679,352	1.00
2010	679,900	-	679,900	430,000	249,900	679,900	1.00
2011	677,310	-	677,310	465,000	212,310	677,310	1.00
2012	676,570	-	676,570	505,000	171,570	676,570	1.00
2013	677,260	-	677,260	550,000	127,260	677,260	1.00
2014	674,170	-	674,170	595,000	79,170	674,170	1.00
2015	672,090	-	672,090	645,000	27,090	672,090	1.00
2016	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-
2018	-	-	-	-	-	-	-

Notes:

Details regarding the City's outstanding debt can be found in Note 8 of the financial statements

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Pledged-Revenue Coverage (Continued)
Last Ten Fiscal Years

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	Total	
2009	\$71,613,953	\$51,599,265	\$20,014,688	\$ 2,065,000	\$4,011,542	\$ 6,076,542	3.29
2010	72,191,950	52,131,987	20,059,963	2,135,000	3,937,058	6,072,058	3.30
2011	67,713,179	49,064,535	18,648,644	2,220,000	3,852,716	6,072,716	3.07
2012	71,296,465	53,021,213	18,275,252	2,310,000	4,020,204	6,330,204	2.89
2013	79,799,930	60,004,862	19,795,068	2,445,000	5,169,939	7,614,939	2.60
2014	86,667,661	65,419,946	21,247,715	2,900,000	5,331,367	8,231,367	2.58
2015	87,671,696	66,305,756	21,365,940	1,170,000	3,974,086	5,144,086	4.15
2016	86,015,050	66,144,441	19,870,609	2,720,000	4,559,645	7,279,645	2.73
2017	93,821,259	72,905,682	20,915,577	2,635,000	4,643,985	7,278,985	2.87
2018	101,325,778	80,281,886	21,043,892	2,725,000	4,545,937	7,270,937	2.89

Special Assessment Debt - Hidden Trails

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 240,612	-	\$ 240,612	\$ 65,000	\$ 170,423	\$ 235,423	1.02
2010	229,274	-	229,274	60,000	166,850	226,850	1.01
2011	238,709	-	238,709	75,000	162,900	237,900	1.00
2012	209,432	-	209,432	65,000	159,357	224,357	0.93
2013	229,435	-	229,435	70,000	155,610	225,610	1.02
2014	227,470	-	227,470	75,000	130,338	205,338	1.11
2015	202,543	-	202,543	95,000	185,180	280,180	0.72
2016	192,845	-	192,845	100,000	88,231	188,231	1.02
2017	199,532	-	199,532	100,000	86,231	186,231	1.07
2018	202,926	-	202,926	110,000	83,994	193,994	1.05

Special Assessment Debt - Eureka Ranch

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 1,451,135	-	\$ 1,451,135	-	\$ 906,975	\$ 906,975	1.60
2010	1,419,402	-	1,419,402	320,000	893,243	1,213,243	1.17
2011	1,182,479	-	1,182,479	330,000	879,630	1,209,630	0.98
2012	1,225,888	-	1,225,888	345,000	865,114	1,210,114	1.01
2013	1,252,550	-	1,252,550	360,000	849,600	1,209,600	1.04
2014	1,231,047	-	1,231,047	375,000	833,058	1,208,058	1.02
2015	1,240,086	-	1,240,086	-	1,218,656	1,218,656	1.02
2016	1,088,472	-	1,088,472	-	445,103	445,103	2.45
2017	1,028,832	-	1,028,832	295,000	594,950	889,950	1.16
2018	1,067,698	-	1,067,698	445,000	587,550	1,032,550	1.03

Notes:

Details regarding the City's outstanding debt can be found in Note 8 of the financial statements

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Pledged-Revenue Coverage (Continued)
Last Ten Fiscal Years

Special Assessment Debt - Auto Parkway

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 333,284	-	\$ 333,284	\$ 185,000	\$ 145,624	\$ 330,624	1.01
2010	335,748	-	335,748	195,000	135,422	330,422	1.02
2011	338,480	-	338,480	205,000	124,172	329,172	1.03
2012	347,187	-	347,187	215,000	112,359	327,359	1.06
2013	343,514	-	343,514	225,000	99,984	324,984	1.06
2014	347,171	-	347,171	240,000	86,906	326,906	1.06
2015	343,788	-	343,788	255,000	72,984	327,984	1.05
2016	343,967	-	343,967	270,000	58,219	328,219	1.05
2017	340,252	-	340,252	285,000	42,609	327,609	1.04
2018	338,357	-	338,357	300,000	26,156	326,156	1.04

Special Assessment Debt - Rancho San Pasqual

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2009	\$ 335,979	-	\$ 335,979	\$ 120,000	\$ 214,298	\$ 334,298	1.01
2010	351,695	-	351,695	125,000	207,774	332,774	1.06
2011	351,270	-	351,270	130,000	200,920	330,920	1.06
2012	357,610	-	357,610	140,000	193,595	333,595	1.07
2013	350,697	-	350,697	145,000	185,793	330,793	1.06
2014	355,975	-	355,975	155,000	177,543	332,543	1.07
2015	349,564	-	349,564	165,000	168,577	333,577	1.05
2016	345,177	-	345,177	175,000	158,887	333,887	1.03
2017	353,979	-	353,979	175,000	148,913	323,913	1.09
2018	348,126	-	348,126	195,000	138,368	333,368	1.04

Notes:

Details regarding the City's outstanding debt can be found in Note 8 of the financial statements

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⁾
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
2014	147,294	3,267	22,181	4.8
2015	150,760	3,323	22,042	5.2
2016	151,492	3,500	23,103	4.7
2017	151,478	3,700	24,573	3.1

Sources:

(1) California State Department of Finance Projections.

(2) Income Data is provided by the U.S. Census Bureau, 2010 American Community Survey.

(3) EDD Bureau of Labor Statistics Department.

CITY OF ESCONDIDO
Principal Employers
Current Year and Nine Years Ago

Employer	2018		2009	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Palomar Medical Center	2,731	3.93 %	2,664	4.10 %
Escondido Union School District	1,843	2.65	1,795	2.76
City of Escondido	961	1.38	1,075	1.65
Escondido Union High School District	829	1.19	715	1.10
Bergelectric	815	1.17		
Home Depot (2 locations)	332	0.48	333	0.51
Nordstrom Inc.*	320	0.46	418	0.64
Toyota of Escondido	301	0.43		
Nemo's Bakery	290	0.42	352	0.54
Vons Grocery Stores (3 locations)	264	0.38		
North County Transit District			484	0.74
ARS National Services Inc			439	0.68
Palomar Community College District			340	0.52

Notes:

Results based on direct correspondence with city's local businesses.

(1) Total City Labor Force provided by EDD Labor Force Data

*Count for Nordstrom only not including Nordstrom's Rack

Source:

MuniServices, LLC.

CITY OF ESCONDIDO
Full-time and Part-time City Employees by Function
Last Ten Fiscal Years
As of June 30

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government	112	110	109	106	108	111	107	113	120	123
Public Safety	377	381	375	360	374	383	365	383	398	397
Public Works	149	142	143	151	154	148	140	118	111	107
Community Development	42	39	38	37	35	36	37	38	37	37
Community Services	221	225	224	216	225	206	174	168	167	94
Housing & Neighborhood Services	13	14	15	12	10	10	9	10	9	10
Water	119	117	118	118	114	114	118	115	117	115
Wastewater	72	74	75	73	71	82	78	73	73	71
Total	<u>1,105</u>	<u>1,102</u>	<u>1,097</u>	<u>1,073</u>	<u>1,091</u>	<u>1,090</u>	<u>1,028</u>	<u>1,018</u>	<u>1,032</u>	<u>954</u>

Source:

City of Escondido Finance Department.

CITY OF ESCONDIDO
Operating Indicators by Function
Last Ten Fiscal Years

Function	2009	2010	2011	2012	2013
Police:					
Physical Arrests	7,004	7,190	7,617	7,032	5,988
Traffic Violations	21,438	16,956	13,811	13,054	9,782
Parking Violations	7,942	7,606	5,784	4,514	4,022
Fire:					
Number of Calls Answered	11,237	11,544	11,370	11,978	13,065
Number of Inspections Conducted	3,105	2,059	2,222	1,380	1,741
Public Works⁽¹⁾:					
Street Resurfacing (miles)	1.1	1.5	9.5	3.0	19.3
Parks and Recreation⁽²⁾:					
Number of Recreation Classes	1,228	1,101	1,176	990	1,275
Number of Facility Rentals	982	1,106	1,125	995	2,541
Golf Rounds Played	100,192	97,683	95,020	95,934	95,528
Water:					
Number of Service Connections	26,280	26,390	26,489	26,502	26,508
Average Daily Consumption (gallons)	23,170,000	18,799,222	18,835,000	20,220,000	23,370,000
Sewer:					
Number of Service Connections	26,909	27,014	27,066	27,054	27,072
Average Daily Treatment (gallons)	13,000,000	12,500,000	12,900,000	12,730,000	12,630,000

Note:

(1) Funding for street resurfacing was increased beginning in 2013

(2) A new registration process for recreation was implemented in 2013.

Source:

City of Escondido.

CITY OF ESCONDIDO
Operating Indicators by Function (Continued)
Last Ten Fiscal Years

Function	2014	2015	2016	2017	2018
Police:					
Physical Arrests	5,740	4,923	5,114	5,533	5,763
Traffic Violations	8,454	8,528	7,038	6,912	5,779
Parking Violations	4,328	5,571	6,052	6,218	6,752
Fire:					
Number of Calls Answered	13,139	13,450	14,553	15,369	16,710
Number of Inspections Conducted	1,496	2,590	2,086	1,826	3,624
Public Works⁽¹⁾:					
Street Resurfacing (miles)	18.6	44.0	63.5	67.0	94.0
Parks and Recreation⁽²⁾:					
Number of Recreation Classes	2,410	1,070	808	577	640
Number of Facility Rentals	1,975	1,770	1,857	3,056	3,482
Golf Rounds Played	97,094	94,917	99,130	97,394	99,817
Water:					
Number of Service Connections	26,536	26,567	26,617	26,694	26,884
Average Daily Consumption (gallons)	22,579,315	19,500,000	16,680,000	17,206,595	19,431,105
Sewer:					
Number of Service Connections	27,102	27,139	27,048	27,070	48,092
Average Daily Treatment (gallons)	12,100,000	11,900,000	11,700,000	12,600,000	12,300,000

Note:

(1) Funding for street resurfacing was increased beginning in 2013

(2) A new registration process for recreation was implemented in 2013.

Source:

City of Escondido.

CITY OF ESCONDIDO
Capital Asset Statistics by Function
Last Ten Fiscal Years

Function	2009	2010	2011	2012	2013
Police:					
Stations	1	1	1	1	1
Fire:					
Stations	7	7	7	7	7
Public Works:					
Streets (miles)	302.0	304.4	304.6	304.9	305.0
Streetlights	6,408	6,460	6,479	6,480	6,479
Traffic Signals	139	146	148	148	151
Parks and Recreation:					
Parks	14	14	14	14	14
Community Centers	3	3	3	3	3
Golf Courses	2	2	2	2	2
Water:					
Water Mains (miles)	429	430	430	430	431
Maximum Daily Plant Capacity (gallons)	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Sewer:					
Sanitary Sewers (miles)	375	351	352	355	363
Storm Drains (miles)	380	380	381	383	382
Maximum Daily Treatment Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000

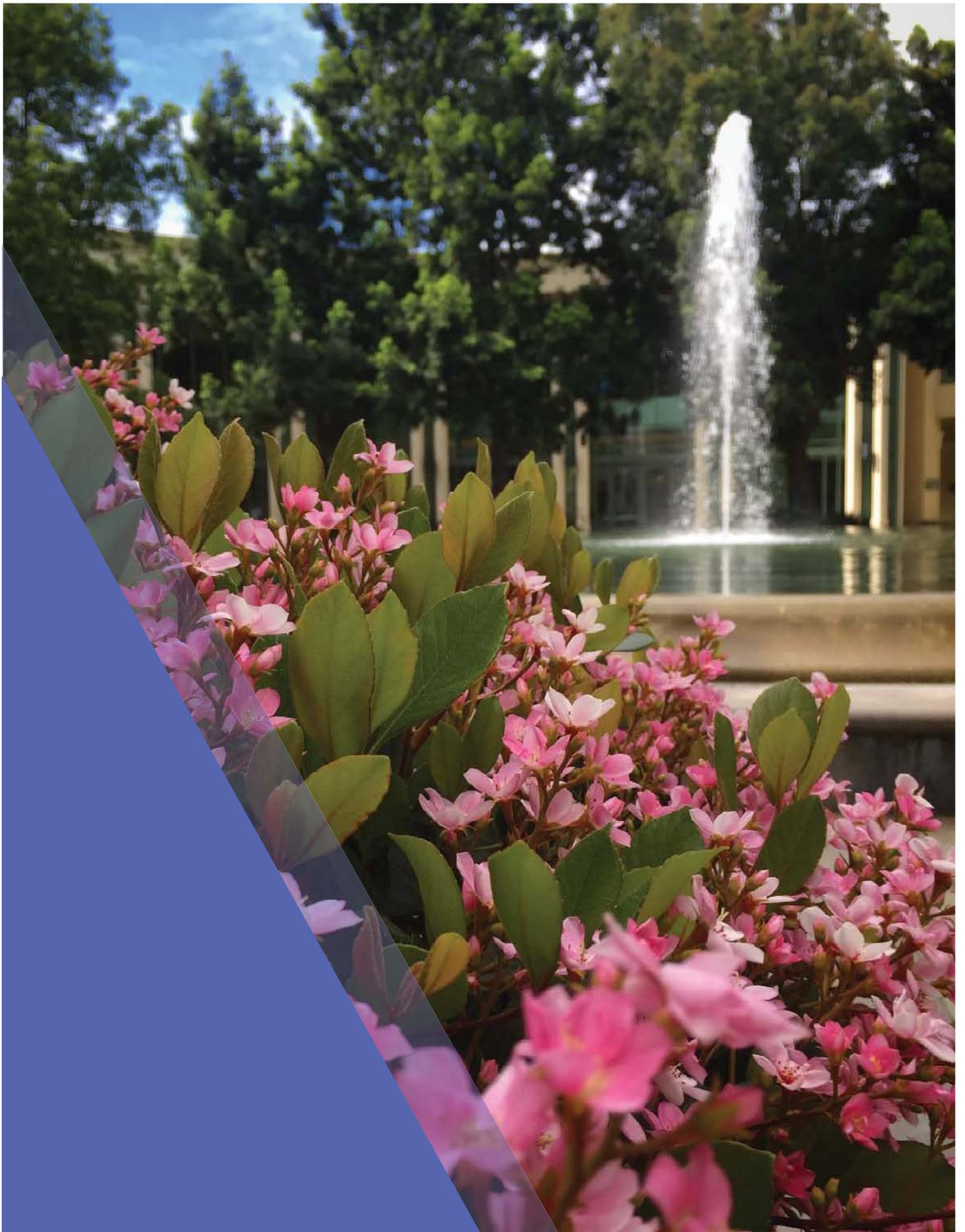
Source:

City of Escondido.

CITY OF ESCONDIDO
Capital Asset Statistics by Function (Continued)
Last Ten Fiscal Years

Function	2014	2015	2016	2017	2018
Police:					
Stations	1	1	1	1	1
Fire:					
Stations	7	7	7	7	7
Public Works:					
Streets (miles)	305.0	306.2	307.4	323.0	363.8
Streetlights	6,487	6,488	6,489	6,489	6,489
Traffic Signals	152	153	155	155	155
Parks and Recreation:					
Parks	14	14	14	14	14
Community Centers	3	3	3	3	3
Golf Courses	2	2	2	2	2
Water:					
Water Mains (miles)	431	423	423	430	436
Maximum Daily Plant Capacity (gallons)	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Sewer:					
Sanitary Sewers (miles)	379	374	380	380	389
Storm Drains (miles)	377	411	411	221	200
Maximum Daily Treatment Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000

Source:
City of Escondido.



APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INSTALLMENT PURCHASE AGREEMENT AND THE INDENTURE

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

INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

Definitions. Unless the context otherwise requires, the terms that are defined in the Installment Purchase Agreement will for all purposes thereof and of any amendment thereof or supplement thereto and of any report or other document that is mentioned therein have the meanings that are defined therein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms that are defined therein. All capitalized terms that are used in the Installment Purchase Agreement and not defined therein will have the meanings that are ascribed thereto in the Indenture.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Alexander Area Phase II State Loan. The term "Alexander Area Phase II State Loan" means the Funding Agreement (Project No. 3710006-004), dated October 15, 2009, by and between the City and the State of California Department of Public Health.

Authority. The term "Authority" means Escondido Joint Powers Financing Authority, a joint exercise of powers agency that is duly organized pursuant to the JPA Agreement and existing under and by virtue of the laws of the State of California.

Bonds. The term "Bonds" means all revenue bonds or notes of the City that are authorized, executed, issued and delivered by the City, the payments of which are payable from Net Revenues on a parity with the Series 2019 Installment Payments and which are secured by a pledge of and lien on Revenues as described in the Installment Purchase Agreement.

City. The term "City" means City of Escondido, a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State of California.

City Manager. The term "City Manager" means the City Manager of the City, or any other person that is designated by the City Manager to act on behalf of the City Manager.

Contracts. The term "Contracts" means the 2002 State Loan, the Alexander Area Phase II State Loan, the I-Bank Agreement and all other contracts of the City that are previously or later authorized and executed by the City, the payments under which are payable from Net Revenues on a parity with the Series 2019 Installment Payments and which are secured by a pledge and lien on Revenues as described in the Installment Purchase Agreement; but excluding contracts entered into for operation and maintenance of the Water System.

Date of Operation. The term "Date of Operation" means, with respect to any uncompleted Project, the estimated date by which such Project will have been completed and, in the opinion of an engineer, will be ready for commercial operation by or on behalf of the City.

Debt Service. The term "Debt Service" means, for any period of calculation, the sum of:

(i) the interest accruing 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);

(ii) those portions of the principal amount of all outstanding serial Bonds maturing in such period;

(iii) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period; and

(iv) those portions of the Contracts that are required to be paid during such period (except to the extent that the interest that is 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);

but less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds established for Bonds or Contracts;

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, for all purposes, be assumed to be a fixed rate equal to the higher of: (1) the then-current variable interest rate borne by such Bonds or Contract plus 1%; and (2) the highest variable rate borne over the preceding 3 months by outstanding variable rate debt issued by the City or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index that is comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued;

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 period 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 which bear 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 if the Bonds or Contracts constitute interest rate swap agreements or other paired obligations, the interest rate on such Bonds or Contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the City with respect to such paired obligations; 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, to the extent that the amount in such debt service reserve fund is in excess of such amount of principal, such excess will be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted.

Event of Default. The term “Event of Default” means an event that is described as such in the Installment Purchase Agreement.

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.

I-Bank Agreement. The term “I-Bank Agreement” means the Installment Sale Agreement, dated as of June 1, 2019, by and between the City and the California Infrastructure and Economic Development Bank.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of the date of the Installment Purchase Agreement, by and between the City and the Authority, relating to the 2019 Bonds.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants that is appointed by the City, and each of whom is independent 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 that is appointed by the City, 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 of the City, but who may be regularly retained to make reports to the City.

Installment Payment Date. The term “Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the City under and pursuant to any Contract.

Installment Payments. The term “Installment Payments” means the Installment Payments of interest and principal scheduled to be paid by the City under and pursuant to the Contracts.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of November 1, 2019, 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.

JPA Agreement. The term “JPA Agreement” means the Joint Exercise of Powers Agreement, dated November 20, 1991, by and between the City and the Successor Agency to the Community Development Commission of the City of Escondido, pursuant to which the Authority is established.

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 Installment Purchase Agreement, Net Revenues will include all interest or gain derived from the investment of amounts in any of such funds or accounts.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means: (1) costs spent or incurred for maintenance and operation of the Water 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 Water System in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Water 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 2019 Bonds or of the Installment Purchase Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds; and (2) all payments under any contract for the purchase of water; but excluding in all cases operation and maintenance costs of the City’s recycled water system, depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Project. The term “Project” means additions, betterments, extensions or improvements to the City’s facilities designated by the City Council of the City as a Project, the acquisition and construction of which is to be paid for by the proceeds of any Contracts or Bonds.

Purchase Price. The term “Purchase Price” means the principal amount plus interest thereon owed by the City to the Authority under the terms of the Installment Purchase Agreement as provided therein.

Revenue Fund. The term “Revenue Fund” means the Water Enterprise Fund of the City, together with other accounts that may be created in the future and designated by action of the City Council of the City as a part of the fund called “Revenue Fund” that has been established pursuant to the Installment Purchase Agreement.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership of or operation of the Water System, including, without limiting the generality of the foregoing: (1) all in lieu charges and groundwater augmentation charges (including investment earnings thereon) collected by or on behalf of the City; (2) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the City from the sale, furnishing and supplying of the water, drainage or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System; and (3) 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: (w) revenues of the City’s recycled water system; (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) proceeds of taxes or benefit assessments restricted by law to be used by the City to pay amounts due on bonds or other obligations 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 of the Installment Purchase Agreement and which were not financed from the proceeds of Bonds or Contracts of the City having a parity claim on the Revenue Fund or Revenues. Currently, there are no Separate Facilities.

Series 2019 Installment Payment Date. The term “Series 2019 Installment Payment Date” means the last Business Day of February and August of each year commencing on February 28, 2020.

Series 2019 Installment Payments. The term “Series 2019 Installment Payments” means the Installment Payments scheduled to be paid by the City under and pursuant to the Installment Purchase Agreement.

Trustee. The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Trustee under and pursuant to the Indenture, and its successors and assigns.

2002 State Loan. The term “2002 State Loan” means the Funding Agreement (Contract No. SRF00CX112), dated November 18, 2002, by and between the City and the State of California Department of Water Resources, as amended.

2007 Project. The term “2007 Project” means the additions, betterments, extensions and improvements to the City’s Water System facilities, including real property and buildings, if any, which are described as such in the Installment Purchase Agreement.

2012 Project. The term “2012 Project” means the additions, betterments, extensions and improvements to the City’s Water System facilities, including real property and buildings, if any, which are described as such in the Installment Purchase Agreement.

2019 Bonds. The term “2019 Bonds” means, collectively, the 2019A Bonds and the 2019B Bonds, issued pursuant to the Indenture.

2019A Bonds. The term “2019A Bonds” means the Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019A issued pursuant to the Indenture.

2019B Bonds. The term “2019B Bonds” means the Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019B (Taxable) issued pursuant to the Indenture.

Water Service. The term “Water Service” means the water distribution service that is made available or provided by the Water System.

Water System. The term “Water System” means the whole and each and every part of the waterworks system serving the City, whether owned or operated by the City or another party, including the portion thereof existing on the date of the Installment Purchase Agreement, and including all additions, betterments, extensions and improvements to such water system or any part thereof later acquired or constructed, but not including any Separate Facilities. The recycled water system of the City is not part of the Water System.

ACQUISITION OF 2007 PROJECT AND 2012 PROJECT

Sale and Purchase of 2007 Project and 2012 Project. The City and the Authority have confirmed that the City currently has title to the 2007 Project and the 2012 Project. In consideration for the Authority’s assistance in refinancing the 2007 Project and the 2012 Project, the City has agreed to sell, and has sold, to the Authority, and the Authority has agreed to purchase and has purchased, from the City, the 2007 Project and the 2012 Project in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Purchase and Sale of 2007 Project and 2012 Project. In consideration for the Series 2019 Installment Payments, the Authority has agreed to sell, and has sold, to the City, and the City has agreed to purchase, and has purchased, from the Authority, the 2007 Project and the 2012 Project at the purchase price that is specified in the Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Installment Purchase Agreement.

Title. All right, title and interest in each component of the 2007 Project and the 2012 Project will vest in the City immediately upon execution and delivery of the Installment Purchase Agreement. Such vesting will occur without further action by the Authority or the City, and the Authority will, if requested by the City or if necessary to assure such automatic vesting, deliver any and all documents which are required to assure such vesting.

INSTALLMENT PAYMENTS

Purchase Price. The Purchase Price to be paid by the City under the Installment Purchase Agreement to the Authority is the sum of the principal amount of the City’s obligations thereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date thereof over the term thereof, subject to prepayment as provided therein. The principal amount of the payments to be made by the City under the Installment Purchase Agreement is set forth therein. The interest to accrue on the unpaid balance of such principal amount is as specified in the Installment Purchase Agreement, and will be paid by the City as and constitute interest paid on the principal amount of the City’s obligations thereunder.

Series 2019 Installment Payments. The City will, subject to its rights of prepayment provided in the Installment Purchase Agreement, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the Series 2019 Installment Payment Dates as set forth in the Installment Purchase Agreement.

Each Series 2019 Installment Payment will be paid to the Authority in lawful money of the United States of America. In the event that the City fails to make any of the payments which are required to be made by it under the Installment Purchase Agreement, such payment will continue as an obligation of the City until such amount has been fully paid, and the City has agreed to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Series 2019 Installment Payments if paid in accordance with their terms.

SECURITY

Pledge of Revenues. The Revenues, other amounts that are on deposit in the Revenue Fund and any other amounts (including proceeds of the sale of the 2019 Bonds) which are held in any fund or account that is established pursuant to the Installment Purchase Agreement are irrevocably pledged to the payment of the Series 2019 Installment Payments. Except for the payment of the Operation and Maintenance Costs, the Revenues will not be

used for any other purpose while any of the Series 2019 Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. The foregoing pledge constitutes a first lien on Revenues, the Revenue Fund and the other funds and accounts that are created under the Installment Purchase Agreement for the payment of the Series 2019 Installment Payments and all other Contracts and Bonds in accordance with the terms thereof and of the Indenture.

Allocation of Revenues. In order to carry out and effectuate the pledge and lien contained in the Installment Purchase Agreement, the City has agreed and covenanted that all Revenues will be received by the City in trust thereunder and deposited when and as received in a special fund designated as the "Revenue Fund," which fund has been previously established and which fund the City has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Installment Payments or Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the City as provided in the Installment Purchase Agreement.

The City will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts which are reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. All remaining moneys in the Revenue Fund will be set aside by the City at the following times in the following respective special funds in the following order of priority, and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the following purposes:

(a) Bond Payment Fund. On or before each Series 2019 Installment Payment Date, the City will, from remaining moneys in the Revenue Fund, transfer to the Trustee for deposit in the Bond Payment Fund an amount that is equal to the interest and principal payable and coming due on the 2019 Bonds on the next succeeding Interest Payment Date. The City will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the applicable 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 the Contract, Bond, resolution or indenture relating thereto.

Any moneys which are on deposit in the Bond Payment Fund on each Series 2019 Installment Payment Date (other than amounts that are required for the payment of past due principal or interest with respect to any 2019 Bonds not presented for payment) will be credited to the payment of the Series 2019 Installment Payments due and payable on such date. No deposit need be made in the Bond Payment Fund as Series 2019 Installment Payments if the amount in the Bond Payment Fund is at least equal to the amount of the Series 2019 Installment Payment that is due and payable on the next succeeding Series 2019 Installment Payment Date.

(b) Reserve Funds. On or before each Series 2019 Installment Payment Date, the City will, from remaining moneys in the 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 deposit to reserve funds or accounts established for Bonds or Contracts an amount that is equal to the amount required to be deposited therein.

(c) Surplus. Moneys on deposit in the Revenue Fund which are not necessary to make any of the payments which are required above may be expended by the City at any time for any purpose permitted by law.

Investments. All moneys which are held by the City in the 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 Installment Purchase Agreement.

COVENANTS OF THE CITY

Compliance with Installment Purchase Agreement and Ancillary Agreements. The City will punctually pay the Series 2019 Installment Payments in strict conformity with the terms of the Installment Purchase Agreement, and will faithfully observe and perform all of the agreements, conditions, covenants and terms contained therein which are required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2007 Project or the 2012 Project, commercial

frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term which is contained therein and required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion or acts or regulations of governmental authorities.

The City will faithfully observe and perform all of the agreements, conditions, covenants and terms which are required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

Against Encumbrances. The City will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund except as provided in the Installment Purchase Agreement. In addition, the City may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Revenues or any moneys in the Revenue Fund as may from time to time be deposited in the Installment Purchase Agreement (as provided therein), provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided therein.

Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof which is necessary to secure adequate Revenues for the payment of the Series 2019 Installment Payments, or which would otherwise impair the rights of the Authority under the Installment Purchase Agreement or the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water 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 Series 2019 Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing in the Installment Purchase Agreement restricts the ability of the City to sell any portion of the Water 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 Water System exercising any remedy which would deprive the City of or otherwise interfere with its right to own and operate such portion of the Water System.

Against Competitive Facilities. The City will not, to the extent permitted by law, 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 water system competitive with the Water System.

Tax Covenants. Notwithstanding any other provision of the Installment Purchase Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the 2019A Bonds will not be adversely affected for federal income tax purposes, the City has covenanted to comply with all applicable requirements of the Code which are necessary to preserve such exclusion from gross income with respect to the 2019A Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City will take no action and refrain from taking any action, and the City will make no use of the proceeds of the 2019A Bonds or of any other moneys or property, which would cause the 2019A 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 2019A Bonds or of any other amounts or property, regardless of the source, and the City will not take any action or refrain from taking any action, which will cause the 2019A 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 2019A Bonds, and the City will not take or omit to take any action, that would cause the 2019A 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 which is necessary to preserve the exclusion of interest on the 2019A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The City will make no use of the proceeds of the 2019A Bonds or any other amounts or property, regardless of the source, and the City will not take any action and refrain from taking any action, that would cause the 2019A 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 2019A Bonds for federal income tax purposes; and

(f) Miscellaneous. The City will not take any action or refrain from taking any action which is inconsistent with its expectations stated in the Tax Certificate executed by the City in connection with the issuance of the 2019A Bonds and will comply with the covenants and requirements that are stated therein and incorporated by reference in the Installment Purchase Agreement.

The foregoing tax covenants are not applicable to, and nothing that is contained in the Installment Purchase Agreement will be deemed to prevent the City from causing the Authority to issue revenue bonds or issuing bonds or executing and delivering contracts that are payable on a parity with the 2019A Bonds, the interest with respect to which has been determined to be subject to federal income taxation, including but not limited to the 2019B Bonds.

Maintenance and Operation of the Water System. The City will maintain and preserve the Water System in good repair and working order at all times, operate the Water System in an efficient and economical manner and 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 Installment Purchase Agreement or under the Indenture or on any funds in the hands of the City which are pledged to pay the Series 2019 Installment Payments or the Bonds, or which might impair the security of the Series 2019 Installment Payments.

Compliance with Contracts. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, which are required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System, to the extent that the City is a party thereto.

Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Water System, excluding coverage for earthquake damage or destruction, with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with facilities that are similar to the Water System, so long as such insurance is available at reasonable rates.

In the event of any damage to or destruction of the Water 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 Water System. The City will begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, 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 Water 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 Water 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 Series 2019 Installment Payments.

(b) The City will procure and maintain such other insurance which it deems advisable or necessary to protect its interests and the interests of the Authority, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water System.

(c) Any insurance that is required to be maintained by paragraph (a) above and, if the City determines to procure and maintain insurance pursuant to paragraph (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 water systems similar to the Water System, and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance which are required to be maintained by the Installment Purchase Agreement must provide that the Authority or its assignee be given 30 days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Annually on or before September 1 in each year, the Authority will provide the Trustee with a Certificate stating that the City is in full compliance with the foregoing insurance provisions. The Trustee is entitled to rely on any such Certificate as to the City's compliance with these provisions, and the Trustee has no further duties in that regard.

Accounting Records; Financial Statements and Other Reports.

(a) The City will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the Water System, which records will be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Authority or its assignee, annually within 270 days after the close of each Fiscal Year (commencing with the Fiscal Year ended June 30, 2019) 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 obligation to review any such financial statements.

Protection of Security and Rights of the Authority. The City will preserve and protect the security of the Installment Purchase Agreement and the rights of the Authority to the Series 2019 Installment Payments thereunder and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may later be lawfully imposed upon the Water 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 Water 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 Water Service to such customer's land and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may discontinue such service from the Water System, and such service may not thereafter be recommenced except in accordance with City by-laws or rules, regulations and the laws of the State of California governing such situations of delinquency.

Eminent Domain Proceeds. If all or any part of the Water System are taken by eminent domain proceedings, the Net Proceeds thereof will be applied either to additions, betterments, extensions or improvements to the Water 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 which are not required by the City for such purposes will be deposited in the Revenue Fund.

Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Installment Purchase Agreement and for the better assuring and confirming unto the Authority of the rights and benefits provided to it therein.

Enforcement of Contracts. So long as any of the 2019 Bonds are outstanding, 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 2019 Bonds.

Continued Existence of Authority. The City and the Authority will take or cause to be taken all actions reasonably necessary to continue the Authority's existence until such time as the 2019 Bonds are no longer Outstanding under the Indenture, including but not limited to the addition of one or more new members to the Authority and execution of the JPA Agreement pursuant to which the Authority was created by such new members.

PREPAYMENT OF SERIES 2019 INSTALLMENT PAYMENTS

Prepayment.

(a) The City may prepay the Series 2019 Installment Payments as a whole, or in part, on the Business Day prior to September 1, 2029 or any date thereafter in the order of payment date as directed by the City, at a prepayment price equal to the principal amount of the Series 2019 Installment Payments to be prepaid, together with accrued interest thereon to the date of prepayment, without premium.

(b) Notwithstanding any such prepayment, the City will not be relieved of its obligations under the Installment Purchase Agreement until the Purchase Price has been fully paid (or provision for payment thereof has been provided to the written satisfaction of the Authority).

Method of Prepayment. Before making any prepayment pursuant to the Installment Purchase Agreement, the City will, within five days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date must be not less than 60 (or such shorter number of days as is acceptable to the Trustee) days from the date that such notice is given.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default happen:

(a) if default is made by the City in the due and punctual payment of any Series 2019 Installment Payment or any Contract or Bond when and as the same becomes due and payable;

(b) if default is made by the City in the performance of any of the agreements or covenants which are required by the Installment Purchase Agreement to be performed by it, and such default has continued for a period of 60 days after the City has been given notice in writing of such default by the Authority; 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 Installment Purchase Agreement;

(c) if 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; or

(d) if payment of the principal of any Contract or Bond is accelerated in accordance with its terms;

then and in each and every such case during the continuance of an Event of Default, the Authority will, by notice in writing to the City, declare the entire principal amount of the unpaid Series 2019 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same will

become immediately due and payable, anything contained in the Installment Purchase Agreement to the contrary notwithstanding. The foregoing, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2019 Installment Payments and the accrued interest thereon have been so declared due and payable, but before any judgment or decree for the payment of the moneys due has been obtained or entered, the City deposits with the Authority an amount that is sufficient to pay the unpaid principal amount of the Series 2019 Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2019 Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Series 2019 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate has been made therefor, then and in every such case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in the Installment Purchase Agreement, all Revenues thereafter received by the City will be applied in the following order:

First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Trustee and its assigns and thereafter to the Authority, as the case may be, in carrying out the default provisions of the Installment Purchase Agreement, including reasonable compensation to their respective accountants and counsel;

Second, to the payment of the Operation and Maintenance Costs; and

Third, to the payment of the entire principal amount of the unpaid Series 2019 Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2019 Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms.

Other Remedies of the Authority. The Authority has the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any director, officer or employee thereof, and to compel the City or any such director, officer or employee to perform and carry out its or his or her duties under the laws of the State of California and the agreements and covenants required to be performed by it or him or her contained in the Installment Purchase Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Authority; or

(c) by suit in equity upon the happening of an Event of Default to require the City and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained in the Installment Purchase Agreement, the Authority has no security interest in or mortgage on the 2007 Project, the 2012 Project, the Water System or other assets of the City and no default thereunder will result in the loss of the 2007 Project, the 2012 Project, the Water System or other assets of the City.

Non-Waiver. Nothing in the Installment Purchase Agreement affects or impairs the obligation of the City, which is absolute and unconditional, to pay the Series 2019 Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds therein pledged for such payment, or affects or impairs the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

A waiver of any default or breach of duty or contract by the Authority will not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract will impair any such right or remedy or be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy that is conferred upon the Authority by the laws of the State of California or by the Installment Purchase Agreement may be enforced and exercised from time to time and as often as deemed expedient by the Authority.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the City and the Authority will be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy that is conferred upon or reserved to the Authority in the Installment Purchase Agreement is intended to be exclusive of any other remedy, and each such remedy will be cumulative and in addition to every other remedy given thereunder or now or later existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the laws of the State of California or any other law.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. When:

(a) all or any portion of the Series 2019 Installment Payments have become due and payable in accordance with the Installment Purchase Agreement or a written notice of the City to prepay all or any portion of the Series 2019 Installment Payments has been filed with the Trustee; and

(b) there has been deposited with the Trustee at or prior to the Series 2019 Installment Payment Date or dates specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2019 Installment Payments, sufficient moneys or a combination of sufficient moneys and non-callable Permitted Investments that are described in clause (A) of the definition thereof, the principal of and interest on which Permitted Investments when due will provide money that is sufficient in the opinion of an Independent Certified Public Accountant to pay all principal, prepayment premium, if any, and interest of such Series 2019 Installment Payments to their respective Series 2019 Installment Payment Dates, as the case may be; and

(c) provision has been made for paying all fees and expenses of the Trustee, then and in that event, the right, title and interest of the Authority in the Installment Purchase Agreement and the obligations of the City thereunder will, with respect to all or such portion of the Series 2019 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of such Series 2019 Installment Payments).

In such event, upon request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee will pay over to the City, after payment of all amounts due the Trustee pursuant to the Indenture, as an overpayment of Series 2019 Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the Installment Purchase Agreement, other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Series 2019 Installment Payments, which moneys and Permitted Investments will continue to be held by the Trustee in trust for the payment of the Series 2019 Installment Payments and will be applied by the Trustee to the payment of the Series 2019 Installment Payments of the City.

MISCELLANEOUS

Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained in the Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the City or the Authority any right, remedy or claim under or pursuant thereto, and any agreement or covenant that is required therein to be performed by or on behalf of the City or the Authority will be for the sole and exclusive benefit of the other party.

Successor Is Deemed Included in all References to Predecessor. Whenever either the City or the Authority is named or referred to in the Installment Purchase Agreement, such reference will be deemed to include the successor to the powers, duties and functions that are presently vested in the City or the Authority, and all agreements and covenants which are required thereby to be performed by or on behalf of the City or the Authority will bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No member, officer or employee of the City will be individually or personally liable for the payment of the Series 2019 Installment Payments, but nothing contained in the Installment Purchase Agreement will relieve any member, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or thereby.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Installment Purchase Agreement to be performed by or on the part of the City or the Authority is contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof will be null and void and will be deemed separable from the remaining agreements and covenants or portions thereof and will in no way affect the validity thereof. The City and the Authority have declared that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Assignment. The Installment Purchase Agreement and any rights thereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the City. In addition to the rights and remedies assigned by the Authority to the Trustee, to the extent that the Indenture and the Installment Purchase Agreement confer upon or give or grant to the Trustee any right, remedy or claim under or by reason of the Indenture or the Installment Purchase Agreement, the Trustee has been explicitly recognized as being a third party beneficiary under the Installment Purchase Agreement and may enforce any such right, remedy or claim conferred given or granted.

Net Contract. The Installment Purchase Agreement will be deemed and construed to be a net contract, and the City will pay absolutely net during the term thereof the Series 2019 Installment Payments and all other payments required thereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

California Law. THE INSTALLMENT PURCHASE AGREEMENT WILL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Effective Date. The Installment Purchase Agreement will become effective upon its execution and delivery, and will terminate when the Purchase Price has been fully paid (or provision for the payment thereof has been made to the written satisfaction of the Authority).

Indemnification of Authority. The City has agreed to indemnify and hold harmless the Authority and its assigns and its officers and directors if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties under the Installment Purchase Agreement and under the Indenture; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation under the Installment Purchase Agreement or under the Indenture by the Authority.

Amendments Permitted.

(a) The Installment Purchase Agreement and the rights and obligations of the Authority and the City and of the Owners of the 2019 Bonds and of the Trustee may be modified or amended at any time by an amendment thereto which will become binding upon the written consents of the Owners of a majority in aggregate principal amount of the 2019 Bonds then Outstanding, exclusive of 2019 Bonds disqualified as provided in the Indenture. No such modification or amendment may: (1) extend the fixed maturity of any 2019 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 2019 Bond so affected; or (2) reduce the aforesaid percentage of 2019 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 Installment Purchase Agreement prior to or on a parity with the lien created by the Installment Purchase Agreement except as permitted in the Installment Purchase Agreement, or deprive the Owners of the 2019 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted in the Installment Purchase Agreement, without the consent of the Owners of all of the 2019 Bonds then Outstanding.

(b) The Installment Purchase Agreement and the rights and obligations of the Authority and the City and of the Owners of the 2019 Bonds may also be modified or amended at any time by an amendment thereto which will become binding upon adoption, without the consent of the Owners of any 2019 Bonds, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the City contained in the Installment Purchase Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2019 Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the City; (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 Installment Purchase Agreement, or in regard to matters or questions arising under the Installment Purchase Agreement, as the City may deem necessary or desirable; and (3) to modify, amend or supplement the Installment Purchase Agreement in such manner as to cause interest on the 2019A Bonds to remain excludable from gross income under the Code. No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without the written consent thereto.

INDENTURE

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms that are defined in the Indenture will, 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. Unless the context otherwise requires, all capitalized terms that are used in the Indenture and not defined have the meanings that are ascribed thereto in the Installment Purchase Agreement.

Authority. The term “Authority” means the Escondido Joint Powers Financing Authority, a public body that is duly organized and existing under the JPA Agreement, and under the Constitution and laws of the State of California.

Authority Revenues. The term “Authority Revenues” means: (a) all Series 2019 Installment Payments received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase Agreement; and (b) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

Authorized Representative. The term “Authorized Representative” means with respect to the Authority, its Chair, Vice Chair, Secretary, Auditor and Treasurer or Executive Director or any other person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chair, Vice Chair, Secretary, Auditor and Treasurer or Executive Director and filed with the Trustee.

Bond Counsel. The term “Bond Counsel” means Stradling, Yocca, Carlson & Rauth, 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.

Bond Payment Fund. The term “Bond Payment Fund” means the fund by that name established pursuant to the Indenture.

Bond Year. The term “Bond Year” has the meaning that is given to such term in the Tax Certificate.

Bonds. The term “Bonds” means the 2019A Bonds and 2019B Bonds issued by the Authority and at any time Outstanding pursuant to the Indenture.

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 Authority mean a written certificate, direction, request or requisition signed in the name of the Authority 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 that are provided for in the Indenture.

City. The term “City” means the City of Escondido, a municipal corporation that is duly organized and existing under and by virtue of the general laws of the State.

Closing Date. The term “Closing Date” means the date on which the Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Depository; DTC. The terms “Depository” and “DTC” mean The Depository Trust Company, New York, New York, a limited purpose trust company that is organized under the laws of the State of New York, in its capacity as securities depository for the Bonds.

Event of Default. The term “Event of Default” means any of the events that are 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.

Fitch. The term “Fitch” means Fitch Ratings, Inc., or any successor thereto.

Government Code. The term “Government Code” means the Government Code of the State.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of November 1, 2019, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

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 Authority may specify in a certificate to the Authority and the Trustee as the Trustee may select.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of the date of the Indenture, by and between the Authority and the City, as amended from time to time.

Interest Account. The term “Interest Account” means the account by that name in the Bond Payment Fund established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means March 1 and September 1 of each year, commencing March 1, 2020.

Investment Agreement. The term “Investment Agreement” means an investment agreement by a provider, supported by appropriate opinions of counsel, provided that any such Investment Agreement must: (i) be from a provider rated by S&P or Moody’s at “A-” or “A3”, respectively, or above; (ii) require the Authority or the City to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to the provider by S&P or Moody’s falls to “BBB” or “Baa2”, respectively, or below; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt service requirements with respect to the Bonds, together with such amendments as may be approved by the Authority and the Trustee from time to time.

Letter of Representations. The term “Letter of Representations” means the letter of the Authority delivered to and accepted by the Depository on or prior to delivery of the 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 Authority delivered to and accepted by the Depository.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

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 at 400 South Hope Street, 5th Floor, Los Angeles, California 90071, Attention: Corporate Trust, Reference: Escondido Joint Powers Financing Authority, Series 2019, or at such other or additional offices as may be specified in writing by the Trustee to the Authority, except that with respect to presentation of 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.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the Authority) selected by the Authority. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel will include the statements that are provided for in the Indenture.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (i) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) Bonds with respect to which all liability of the Authority has been discharged in accordance with the Indenture, including Bonds (or portions thereof) described under the caption “MISCELLANEOUS—Money Held for Particular Bonds;” and (iii) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; Bond Owner. The terms “Owner” or “Bond Owner,” whenever used in the Indenture with respect to a Bond, mean the person in whose name the ownership of such Bond is registered on the Registration Books.

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.

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 Authority as conclusive certification that the investments described therein are so authorized under the laws of the State):

(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) Federal Securities; 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, demand deposits, including interest bearing money market accounts, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, other deposit products, 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,” “AAAm G,” “AAm” or “AAm G” or better by S&P, including funds for which the Trustee or its affiliates receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise; (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 Bond Payment Fund established pursuant to the Indenture.

Rating Agencies. The term “Rating Agencies” means S&P, Moody’s and Fitch.

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 fifteenth 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 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 Bond (or portion thereof), the principal amount of such 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 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 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.

S&P. The term “S&P” means S&P Global Ratings, 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 securities depositories as the Authority may designate in a Request of the Authority delivered to the Trustee.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture that is later duly authorized and entered into between the Authority 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 2019A Bonds issued by the Authority on the date of issuance of the 2019A 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 in the Indenture as provided therein.

2007 Certificates. The term “2007 Certificates” means the City of Escondido Revenue Certificates of Participation, Series 2007, executed and delivered by the 2007 Trustee.

2007 Trustee. The term “2007 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, in its capacity as trustee for the 2007 Certificates.

2012 Bonds. The term “2012 Bonds” means the Escondido Joint Powers Financing Authority Revenue Bonds (Water System Financing), Series 2012.

2012 Trustee. The term “2012 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, in its capacity as trustee for the 2012 Bonds.

2019A Bonds. The term “2019A Bonds” means the Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019A issued pursuant to the Indenture.

2019B Bonds. The term “2019B Bonds” means the Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019B (Taxable) issued pursuant to the Indenture.

Content of Certificates and Opinions. Every certificate or opinion that is provided for in the Indenture, except the certificate of destruction that is provided for therein, with respect to compliance with any provision of the Indenture must include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions in the Indenture 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 or she has made or caused to be made such examination or investigation as is necessary to enable such person to express an informed opinion with respect to the subject matter referred to in the instrument to which such person’s 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 that is made or given by an officer of the Authority 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, 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 may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the Authority) upon a certificate or opinion of or representation by an officer of the Authority, unless such counsel or Independent Certified Public Accountant 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 Authority, or the same counsel or Independent Certified Public Accountant, as the case may be, need not certify to all of the matters that are required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants may certify to different matters, respectively.

THE BONDS

Terms of the Bonds. Interest on the Bonds will be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment 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 the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of \$1,000,000 or more in principal amount, such payment may, at such Owner's option, be made 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 Record Date. Principal of and premium (if any) on any Bond will be paid by check of the Trustee upon presentation and surrender thereof at maturity or upon the prior redemption thereof, at the Office of the Trustee. Both the principal of and interest and premium (if any) on the Bonds will be payable in lawful money of the United States of America.

Each 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 February 15, 2020, 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 Bond, interest thereon is in default, such 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 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

Transfer of Bonds. Prior to any transfer of the Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the transferor will provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045, as amended. The Trustee will conclusively rely on the information provided to it and has no responsibility to verify or ensure the accuracy of such information.

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, records for the registration and transfer of ownership of the Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the Authority, 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 Bonds as provided in the Indenture.

The person in whose name any 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 such 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 Bond to the extent of the sum or sums so paid.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond becomes mutilated, the Authority, at the expense of the Owner of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor, series and authorized denomination in exchange and substitution for the Bonds so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be canceled by it and upon the written request of the Authority delivered to, or upon the order of, the Authority. If any Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the Authority, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like tenor, series and authorized denomination in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond has matured or is about to mature, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under the Indenture and of the expenses which may be incurred by the Authority and the Trustee in the premises. Any Bond issued under the provisions of the Indenture in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the Authority whether or not the 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 Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond for a 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 Bond upon receipt of indemnity satisfactory to the Trustee.

Book-Entry System.

(a) Election of Book-Entry System. Prior to the issuance of the Bonds, the Authority may provide that such Bonds be initially issued as book-entry Bonds. If the Authority elects to deliver any Bonds in book-entry form, then the Authority will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such Bonds in an authorized denomination corresponding to that total principal amount of the Bonds designated to mature on such date. Upon initial issuance, the ownership of each such Bond will be registered in the Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book-entry Bonds, the Authority 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 Bonds. Without limiting the immediately preceding sentence, the Authority 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 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Registration Books, of any notice with respect to book-entry Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Bonds to be redeemed in the event that the Authority redeems the 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 Bonds. The Authority and the Trustee may treat and consider the person in whose name each book-entry Bond is registered in the Bond Registration Books as the absolute Owner of such book-entry Bond for the purpose of payment of principal of, premium and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owner, as shown in the Bond Registration Books, or his or her respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Registration Books, will receive a Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the Bonds. Upon delivery by the Depository to the Authority 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 Bonds for the Depository's book-entry system, the Authority will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations will not in any way impose upon the Authority or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry Bonds other than the Owners, as shown on the Registration Books. In addition to the execution and delivery of a Letter of Representations, the Authority and the Trustee, if necessary, will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book-entry 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 Bonds; or (ii) the Authority determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Bonds or the Authority, then the Authority will discontinue the book-entry system with the Depository. If the Authority determines to replace the Depository with another qualified securities depository, the Authority will prepare or direct the preparation of a new single, separate, fully registered Bond for each of the maturity dates of such book-entry Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in paragraph (e) below. If the Authority fails to identify another qualified securities depository to replace the Depository, then the Bonds will no longer be restricted to being registered in such Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 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 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 Bonds and all notices with respect to such Bonds 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 Bonds to Substitute Depository.

(i) The Bonds will be initially issued as provided in the Indenture. Registered ownership of such 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 paragraph (B) (a "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 Authority 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 Authority 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 paragraphs (i)(A) or (B), upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the Authority to the Trustee designating the Substitute Depository, a single new Bond, which the Authority will prepare or cause to be prepared, will be issued for each maturity of 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 Authority. In the case of any transfer pursuant to paragraph (i)(C), upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the Authority to the Trustee, new Bonds, which the Authority 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 Authority, subject to the limitations of the Indenture, provided that the Trustee is not required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request from the Authority.

(iii) In the case of a partial redemption or an advance refunding of any 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 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 will not be 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 Bonds will be controlling.

(iv) The Authority and the Trustee are entitled to treat the person in whose name any 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 Authority; and the Authority and the Trustee has no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the Authority nor the Trustee has 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 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Bonds.

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and will not be affected in any way by any proceedings taken by the Authority, the City or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the 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.

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Bond Payment Fund.

(a) The Authority, for good and valuable consideration in hand received, has irrevocably assigned and transferred to the Trustee without recourse, for the benefit of the Owners of the Bonds as set forth in the Indenture, all of its rights, title, and interest in all Series 2019 Installment Payments payable by the City pursuant to the Installment Purchase Agreement, including all rights of the Authority thereunder as may be necessary to enforce compliance with said provisions (including enforcement of payment obligations and rate covenants, if any, contained in the Installment Purchase Agreement, or otherwise to protect the interest of the Owners of the Bonds). Such assignment will be subject to and limited by the terms of the Indenture.

(b) There has been established with the Trustee the Bond 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 Series 2019 Installment Payments remain unpaid. Except as directed in the Indenture, all Authority Revenues will be promptly deposited by the Trustee upon receipt thereof into the Bond Payment Fund; except that all moneys received by the Trustee and required under the Indenture to be deposited in the Redemption Fund will be promptly deposited therein. All Authority Revenues deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also create and maintain an Interest Account and a Principal Account within the Bond Payment Fund.

Allocation of Authority Revenues. The Trustee will transfer from the Bond 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 Authority 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 date on which the interest on the Bonds becomes due and payable under the Indenture, 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 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal of the Bonds become 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 Bonds coming due and payable on such date or subject to mandatory sinking fund redemption on such date.

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 Bonds as it becomes due and payable (including accrued interest on any 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 Bonds at maturity, mandatory sinking fund redemption, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of 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 will be directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Application of Redemption Fund. There has been established with the Trustee, when needed, 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 principal of and accrued interest on the Bonds to be optionally redeemed on any Redemption Date; provided, however, that at any time prior to selection for redemption of any such Bonds, upon written direction of the Authority, the Trustee will apply such amounts to the purchase of 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 Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Investments. All moneys in any of the funds or accounts that are established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments, which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement. Such investments will be directed by the Authority pursuant to a Request of the Authority 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 Authority, the Trustee will invest any such moneys in Permitted Investments that are 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 Direction from the Authority specifying a specific money market fund and, if no such Direction from the Authority 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 (except for interest or gain derived from the Permitted Investment described in clause (B)(7) of the definition thereof, which will be retained in such Permitted Investment) 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 Request of the Authority. 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 Authority has acknowledged that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority has specifically waived receipt of such confirmations to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request at no additional cost and other trade confirmations may be obtained from the applicable broker. The Trustee will furnish the Authority with periodic cash transaction statements which include detail for all investment transactions effected by the Trustee under the Indenture. Upon the Authority's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request.

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 Trustee may rely conclusively upon the investment direction of the Authority as to the suitability and legality of the directed investments.

The Authority will invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate.

In determining the market value of Permitted Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.

Rebate Fund.

(a) Establishment. The Trustee will establish a separate fund designated the “Rebate Fund” when required in accordance with the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the 2019A Bonds will not be adversely affected, the Authority 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 2019A Bonds will be governed by the Indenture and the Tax Certificate for the 2019A Bonds, unless and to the extent that the Authority delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2019A Bonds will not be adversely affected, if such requirements are not satisfied. Notwithstanding anything to the contrary 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 Authority; (ii) has no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate; (iii) may rely conclusively on the Authority’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 Authority’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 Authority 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 Authority 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 Request of the Authority, an amount will be deposited to the Rebate Fund by the Trustee from any Authority Revenues legally available for such purpose (as specified by the Authority in the aforesaid 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 paragraph (i). 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 Request of the Authority, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Bond Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Request of the Authority, 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 Rebatable Arbitrage calculated as of the end of such Bond Year; and (B) Not later than 60 days after the payment of all of the 2019A Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable 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 Authority 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 Authority), 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 2019A Bonds and the payments described in paragraph (a) above being made may be withdrawn by the Authority and utilized in any manner by the Authority.

(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 2019A Bonds.

Application of Funds and Accounts When No Bonds are Outstanding. On the date on which all Bonds are retired under the Indenture or provision made therefor pursuant thereto and after payment of all amounts due the Trustee under the Indenture, 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 Authority for distribution in accordance with the Installment Purchase Agreement.

PARTICULAR COVENANTS

Punctual Payment. The Authority will punctually pay or cause to be paid the principal and interest to become due in respect of all of the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Authority Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority may not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest is extended, such Bonds or claims for interest are not entitled, in case of any default under the Indenture, to the benefits thereof, except subject to the prior payment in full for the principal of all of the 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 Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance will not be deemed to constitute an extension of maturity of Bonds.

Against Encumbrances. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrances upon the Authority Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to the foregoing limitation, the Authority has expressly reserved the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the JPA Agreement, and has reserved the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Authority Revenues and other assets that are pledged and assigned under the Indenture in the manner and to the extent that is provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority 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 Authority Revenues and other assets and all the rights of the 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 that are undertaken by it relating to the proceeds of Bonds, the Authority Revenues and all funds and accounts that have been established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the City upon reasonable prior notice during business hours and under reasonable circumstances.

Tax Covenants. Notwithstanding any other provision of the Indenture or the Installment Purchase Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of the interest on the 2019A Bonds will not be adversely affected for federal income tax purposes, the Authority has covenanted to comply with all applicable requirements of the Code that are necessary to preserve such exclusion from gross income with respect to the 2019A Bonds and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The Authority will take no action and refrain from taking any action, and the Authority will make no use of the proceeds of the 2019A Bonds or of any other moneys or property, which would cause the 2019A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The Authority will make no use of the proceeds of the 2019A Bonds or of any other amounts or property, regardless of the source, and the Authority will not take any action or refrain from taking any action, which will cause the 2019A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The Authority will make no use of the proceeds of the Bonds, and the Authority will not take or omit to take any action, that would cause the 2019A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The Authority will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code which is necessary to preserve the exclusion of interest on the 2019A Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The Authority will make no use of the proceeds of the 2019A Bonds or any other amounts or property, regardless of the source, and the Authority will not take any action or refrain from taking any action, that would cause the 2019A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Authority 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 2019A Bonds for federal income tax purposes; and

(f) Miscellaneous. The Authority will not take any action or refrain from taking any action which is inconsistent with its expectations stated in the Tax Certificate executed by the Authority in connection with the issuance of the 2019A Bonds and will comply with the covenants and requirements that are stated therein and incorporated by reference in the Indenture.

The foregoing tax covenants are not applicable to, and nothing that is contained in the Indenture will be deemed to prevent the Authority from issuing revenue bonds or executing and delivering contracts that are payable on a parity with the 2019A Bonds, the interest with respect to which has been determined to be subject to federal income taxation, including but not limited to the 2019B Bonds.

Payments Under Installment Purchase Agreement. The Authority will promptly collect all Series 2019 Installment Payments due from the City pursuant to the Installment Purchase Agreement and, subject to the provisions of the Indenture, will enforce and take all steps, actions and proceedings which the Authority or the Trustee determines to be reasonably necessary for the enforcement of all of the obligations of the City thereunder.

The Authority will not enter into any amendments to the Installment Purchase Agreement except as permitted therein. The Trustee will give written consent only if: (a) such amendment, modification or termination will not materially adversely affect the interests of the Bond Owners; or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Waiver of Laws. The Authority 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 Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority 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 Bonds of the rights and benefits provided in the Indenture.

Eminent Domain. If all or any part of the Water System is taken by eminent domain proceedings (or sold to a government entity that is threatening to exercise the power of eminent domain), the Net Proceeds therefrom will be applied in the manner that is specified in the Installment Purchase Agreement.

EVENTS OF DEFAULT AND REMEDIES OF BOND OWNERS

Events of Default. The following events will be Events of Default under the Indenture:

(a) Default by the Authority in the due and punctual payment of the principal of any Bonds 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 Authority in the due and punctual payment of any installment of interest on any Bonds when and as the same become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default continues for a period of 60 days after written notice thereof specifying such default and requiring the same to be remedied have been given to the Authority by the Trustee or by the Owners of not less than a majority in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such 60 day period, and corrective action is instituted by the Authority 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 thereunder.

(d) The Authority 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 a court of competent jurisdiction approves a petition filed with or without the consent of the Authority 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 Authority or of the whole or any substantial part of its property.

Remedies Upon Event of Default. If any Event of Default occurs, then, and in each and every such case during the continuance of such 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 Bonds at the time Outstanding, will in each case, upon notice in writing to the Authority and the City, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Nothing contained in the Indenture permits or require the Trustee or the Authority to accelerate payments due under the Installment Purchase Agreement if the City, which is a party to such Installment Purchase Agreement, is not in default of its obligation thereunder.

Any such declaration is subject to the condition that if, at any time after such declaration, but before any judgment or decree for the payment of the moneys due has been obtained or entered, the Authority or the City deposits with the Trustee an amount that is sufficient to pay all the principal of and installments of interest on the

Bonds the payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds that is 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 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 Authority Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Authority Revenues then 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 by the Trustee as follows and in the following order:

(a) To the payment of any expenses that are necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and to the 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; and

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the 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, in the following order of priority:

First: To the payment to the persons that are entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount that is 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 Bonds 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 that is available is not sufficient to pay in full all the Bonds, 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 Authority.

Trustee to Represent Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the 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 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 Bonds or the Indenture and applicable provisions of any other 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 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 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 Bonds or the Indenture or any other law; and upon instituting such proceeding, the Trustee is entitled, as a matter of right, to the appointment of a receiver of the Authority Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 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 Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing that are 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 may not be 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 Bond Owners who are not parties to such direction.

Suit by Owners. No Owner of any 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, the Installment Purchase Agreement, the JPA Agreement or any other applicable law with respect to such 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 25% in aggregate principal amount of the 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 which is 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 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 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds have any right in any manner whatever by their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Purchase Agreement, the JPA Agreement or other applicable law with respect to the 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 therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the Authority. Nothing in the Indenture or in the Bonds affects or impairs the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Authority 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 Bonds.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the Bonds 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 under the Indenture 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 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 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 will be read into the Indenture against the Trustee. The Trustee will, during the existence of any Event of Default (which has not been cured), 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 man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Authority may remove the Trustee upon 30 days prior notice, unless an Event of Default has occurred and then be 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 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee ceases to be eligible in accordance with paragraph (e) below, 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. The Authority 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 Authority and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority 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 has accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other 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 that is appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the Authority 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 Request of the Authority 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 of 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 that is subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority 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 Authority 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 Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Authority 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 Authority.

(e) Any Trustee that is 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 that is referred to above, 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 in the Indenture.

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, 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 Bonds will be taken as statements of the Authority, and the Trustee will not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture, the Bonds or the Installment Purchase Agreement, nor will 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 Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the 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 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 Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment that is 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 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 under the Installment Purchase Agreement or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture or under the Installment Purchase Agreement 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 Authority or the Owners of not less than 25% of the 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 Authority or the City of any of the terms, conditions, covenants or agreements in the Indenture, or under the Installment Purchase Agreement, of any of the documents executed in connection with the 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 that is 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 under the Indenture, 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 that are vested in it by the Indenture at the request or direction of 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 that is 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 will be subject to the provisions of the Indenture.

(i) The Trustee has 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 Bonds.

(j) The immunities that are 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 is not considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced 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, explosions, mob violence, riots, 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 2007 Project or the 2012 Project, 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 Authority provides 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 Authority whenever a person is to be added or deleted from the listing. If the Authority elects to give the Trustee Instructions using Electronic Means and the Trustee acts upon such Instructions, the Trustee’s understanding of such Instructions will be deemed controlling. The Authority 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 Authority will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the Authority 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 Authority. The Trustee is not 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 Authority 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 Authority; (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 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 Authority, 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 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 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 under the Indenture, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the Authority, 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 that are 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 Authority, the City and any Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The Authority will pay to the Trustee from time to time reasonable compensation for all services that are 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 Authority 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 Authority under the Indenture will survive removal or resignation of the Trustee thereunder or the discharge of the Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted.

(a) The Indenture and the rights and obligations of the Authority, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, exclusive of Bonds that are 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 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 Bond so affected; or (2) reduce the aforesaid percentage of 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 Authority Revenues and other assets pledged under the Indenture prior to or on a parity with the lien that is created by the Indenture except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Authority Revenues and other assets except as permitted in the Indenture, without the consent of the Owners of all of the Bonds then Outstanding. It is not necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it is sufficient if such consent approves the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to the Indenture, 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 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 Authority, the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any 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 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority 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 Authority may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereunder 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 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 that is authorized by paragraphs (a) or (b) above 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 2019A Bonds from federal income taxation and the exclusion of interest on the 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 Authority, the Trustee and all Owners of 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 Bonds; Preparation of New Bonds. 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 Authority as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his or her 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 Bonds. If the Supplemental Indenture so provides, new Bonds so modified as to conform, in the opinion of the Authority, to any modification or amendment that is contained in such Supplemental Indenture, will be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular Bonds. The provisions of the Indenture do not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by such Bond Owner.

DEFEASANCE

Discharge of Indenture. The Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority: (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 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 Section 10.03) to pay or redeem all Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the Bonds then Outstanding.

If the Authority also pays or causes to be paid all other sums that are payable under the Indenture by the Authority, then and in that case, at the election of the Authority (as evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds have not been surrendered for payment, the Indenture and the pledge of Authority Revenues and other assets under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee will execute and deliver to the Authority 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 Bonds not theretofore surrendered for such payment or redemption to the Authority.

Discharge of Liability on 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 Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Outstanding 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 have been made for the giving of such notice, then all liability of the Authority in respect of such 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 that are deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds that were previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such 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 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 that is equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of 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 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 filed with the Authority and the Trustee, provide money that is 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 Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 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 Request of the Authority) to apply such money to the payment of such principal, interest and premium, if any, with respect to such Bonds; and (ii) the Authority has delivered to the Trustee an opinion of Bond Counsel

addressed to the Authority and the Trustee to the effect that such 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 opinion referred to above).

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys which are held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and which remain unclaimed for two years after the principal of all of the 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 Bonds became due and payable, will be repaid (without liability for interest) to the Authority free from the trusts created by the Indenture upon receipt of an indemnification agreement that is acceptable to the Authority and the Trustee indemnifying the Trustee with respect to claims of Owners of 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 Authority as aforesaid, the Trustee will at the written direction of the Authority (at the cost of the Authority) first mail to the Owners of 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 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

MISCELLANEOUS

Liability of Authority Limited to Authority Revenues. Notwithstanding anything in the Indenture or the Bonds, the Authority is not required to advance any moneys derived from any source other than the Authority Revenues and other moneys pledged under the Indenture for any of the purposes of the Indenture, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but is not required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

The Bonds are not a debt of the members of the Authority, the State or any of its political subdivisions (other than the Authority) and neither the members of the Authority, said State nor any of its political subdivisions (other than the Authority) is liable thereon. The City has no liability or obligation in the Indenture except with respect to Series 2019 Installment Payments payable under the Installment Purchase Agreement.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the Authority or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all covenants and agreements in the Indenture by or on behalf of the Authority 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 Bond Owners. Nothing in the Indenture or in the Bonds, express or implied, is intended or will be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and will be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the 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 who is 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 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee will destroy such Bonds as may be allowed by law and upon request deliver a certificate of such destruction to the Authority.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the Bonds is for any reason be 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 Authority has declared that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the 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 Bond Owners. Any request, consent or other instrument that is required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 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 Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the Authority if made in the manner provided therein.

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 Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any Bond will bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are actually known by the Trustee to be owned or held by or for the account of the Authority, or by any other obligor on the Bonds, or by any person that is directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination. 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 Bonds and that the pledgee is not a person that is directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other obligor on the 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 Authority will certify to the Trustee those Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular Bonds (or portions of Bonds in the case of registered 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 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 that is 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 Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the Authority or the City will be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture relieves 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 Authority are liable for any defect or inaccuracy in the CUSIP number that appears on any 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 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Bondholders and that neither the Authority nor the Trustee are liable for any inaccuracies in such numbers.

Choice of Law. THE INDENTURE WILL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

Notice to Rating Agencies. The Trustee will provide any rating agency rating the Bonds with written notice of each amendment to the Indenture and a copy thereof at least 15 days in advance of its execution.

APPENDIX C

FORMS OF OPINIONS OF BOND COUNSEL

Upon issuance of the 2019A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

November 26, 2019

Escondido Joint Powers Financing Authority
c/o City of Escondido
550 East 6th Street
Escondido, California 92223

Re: \$20,380,000 Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019A

Members of the Board of Directors:

We have acted as Bond Counsel to the Escondido Joint Powers Financing Authority (the “Authority”) in connection with the issuance of \$20,380,000 aggregate principal amount of Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019A (the “Bonds”). The Bonds have been issued by the Authority pursuant to the terms of the Indenture of Trust, dated as of November 1, 2019 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

The Bonds are limited obligations of the Authority payable solely from payments to be made by the City of Escondido (the “City”) to the Authority pursuant to an Installment Purchase Agreement, dated as of November 1, 2019 (the “Installment Purchase Agreement”), by and between the City and the Authority, and from certain funds and accounts established under the Indenture.

In connection with our representation, we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of the Authority show lawful authority for the issuance and sale by the Authority of the Bonds under the laws of the State of California (the “State”) now in force, and the Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds and the Indenture are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

2. The obligation of the Authority to make the payments of principal and interest on the Bonds from Authority Revenues (as such term is defined in the Indenture) is an enforceable obligation of the Authority and does not constitute an indebtedness of the Authority 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

on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

4. Interest on the Bonds is exempt from State personal income tax.

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

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

The opinions that are expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their issuance. The Indenture, the Installment Purchase Agreement and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

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

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

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

Respectfully submitted,

Upon issuance of the 2019B Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

November 26, 2019

Escondido Joint Powers Financing Authority
c/o City of Escondido
550 East 6th Street
Escondido, California 92223

Re: \$30,000,000 Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019B (Taxable)

Members of the Board of Directors:

We have acted as Bond Counsel to the Escondido Joint Powers Financing Authority (the "Authority") in connection with the issuance of \$30,000,000 aggregate principal amount of Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019B (Taxable) (the "Bonds"). The Bonds have been issued by the Authority pursuant to the terms of the Indenture of Trust, dated as of November 1, 2019 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The Bonds are limited obligations of the Authority payable solely from payments to be made by the City of Escondido (the "City") to the Authority pursuant to an Installment Purchase Agreement, dated as of November 1, 2019 (the "Installment Purchase Agreement"), by and between the City and the Authority, and from certain funds and accounts established under the Indenture.

In connection with our representation, we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings of the Authority show lawful authority for the issuance and sale by the Authority of the Bonds under the laws of the State of California (the "State") now in force, and the Indenture has been duly authorized, executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds and the Indenture are valid and binding obligations of the Authority enforceable against the Authority in accordance with their respective terms.

2. The obligation of the Authority to make the payments of principal and interest on the Bonds from Authority Revenues (as such term is defined in the Indenture) is an enforceable obligation of the Authority and does not constitute an indebtedness of the Authority 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 on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

4. Interest on the Bonds is exempt from State personal income tax.

The opinions that are expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their issuance. The Indenture and the Installment Purchase Agreement permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

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

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

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

Respectfully submitted

APPENDIX 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 Authority, the City and the Underwriter believe to be reliable, but none of the Authority, the City or the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts

such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority 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 Authority, 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 Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority 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 Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon the issuance of the Bonds, the City proposes to enter into a Continuing Disclosure Agreement 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 \$50,380,000 Escondido Joint Powers Financing Authority Water System Revenue Refunding Bonds, Series 2019A and Series 2019B (Taxable) (collectively, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2019 (the “Indenture”), by and between The Bank of New York Mellon Trust Company, N.A., as trustee, and the Escondido Joint Powers Financing Authority. 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/>.

Financial Obligation. The term “Financial Obligation” means a: (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

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 November 13, 2019 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means any of the original underwriters 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 each April 1 following the end of its Fiscal Year (commencing April 1, 2020 with a report for Fiscal Year 2019) 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, in a timely manner, 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 audited annual financial statements are not available by the time specified in Section 3(a) above, unaudited financial statements will be provided as part of the Disclosure Report and audited financial statements will be provided when and if available; and

(b) To the extent not contained in the audited financial statements, updates of the below-listed financial information and operating data relating to the Bonds and the City substantially similar to the information and data contained in the Official Statement; provided that such information shall be updated only for the last completed Fiscal Year prior to the filing of the Annual Report:

1. Principal amount of the Bonds outstanding.
2. The information under the caption “THE WATER SYSTEM—Historical Water System Service Connections and Production” in the Official Statement.
3. The information under the caption “THE WATER SYSTEM—Historical Water Usage” in the Official Statement.
4. The information under the caption “THE WATER SYSTEM—Largest Water System Customers” in the Official Statement.
5. The information under the caption “THE WATER SYSTEM—Water Rates and Charges” (limited to tabular information) in the Official Statement.
6. The information under the caption “FINANCIAL INFORMATION—Historical Water System Operating Results and Debt Service Coverage” in the Official Statement.
7. A description of additional Parity Bonds or Contracts (as such terms are defined in the Official Statement) issued or executed 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;
9. bankruptcy, insolvency, receivership or similar proceedings of the City; and

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.

10. Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

(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, in a timely manner not more than ten (10) Business Days after the event:

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. 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;

7. appointment of a successor or additional trustee or the change of the name of a trustee; and

8. Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material.

(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 prepayment 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 file an annual report under Section 4 hereof or to file a report of a listed event under Section 5 hereof, any Holders or Beneficial Owners 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 make such filing. 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: November 26, 2019

CITY OF ESCONDIDO

By: _____
Its: City Manager

