

*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 2021 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 2021 Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”*

**\$21,550,000**

**CITY OF ESCONDIDO  
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A**

**Dated: Date of Issuance**

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

The 2021 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the 2021 Bonds will not receive securities representing their beneficial ownership in the 2021 Bonds purchased. Interest on the 2021 Bonds is payable on September 1, 2022 and each March 1 and September 1 thereafter, until their maturity or earlier redemption. The principal of and interest on the 2021 Bonds are payable by the Trustee to Cede & Co. and such interest and principal payments are to be disbursed to the Beneficial Owners of the 2021 Bonds through their nominees.

**The 2021 Bonds are subject to optional redemption as more fully described in this Official Statement. See the caption “THE 2021 BONDS—Redemption of the 2021 Bonds.”**

The 2021 Bonds are being issued to provide moneys: (i) to refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012; and (ii) to pay costs of issuance of the 2021 Bonds, all as more fully described in this Official Statement.

The 2021 Bonds are being issued pursuant to the Indenture of Trust, dated as of December 1, 2021, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee. The 2021 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s Wastewater System remaining after the payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture.

No debt service reserve fund or account has been established in connection with the issuance of the 2021 Bonds.

The obligation of the City to pay the 2021 Bonds from Net Revenues is on a parity with the obligation of the City to make payments on: (i) certain Contracts and Bonds which are currently outstanding in the aggregate principal amount of \$22,404,442; and (ii) certain Contracts upon which the City has not yet drawn, but under which the City may borrow up to a maximum principal amount of \$49,300,000, including a grant component totaling \$5,000,000. The City may incur additional obligations payable from Net Revenues on a parity with the obligation to pay principal of and interest on the 2021 Bonds in the future, subject to the terms and conditions of the Indenture, as more fully described in this Official Statement.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

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

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MATURITY SCHEDULE – See Inside Front Cover Page

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*The 2021 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 2021 Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by the City Attorney, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, and for the Trustee by its counsel. It is anticipated that the 2021 Bonds will be available for delivery through the facilities of The Depository Trust Company on or about December 8, 2021.*

**STIFEL**

**\$21,550,000**  
**CITY OF ESCONDIDO**  
**WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A**

**MATURITY SCHEDULE**

**BASE CUSIP®\* 296385**

<u><i>Maturity Date (September 1)</i></u>	<u><i>Principal Amount</i></u>	<u><i>Interest Rate</i></u>	<u><i>Yield</i></u>	<u><i>Price</i></u>	<u><i>CUSIP®* Suffix</i></u>
2023	\$ 280,000	4.000%	0.260%	106.453	AB3
2024	295,000	1.250	0.360	102.415	AC1
2025	295,000	1.250	0.490	102.805	AD9
2026	305,000	1.250	0.650	102.790	AE7
2027	1,020,000	4.000	0.760	118.133	AF4
2028	1,060,000	4.000	0.900	120.200	AG2
2029	1,100,000	4.000	1.030	122.013	AH0
2030	1,145,000	4.000	1.100	124.076	AJ6
2031	1,195,000	4.000	1.200	125.641	AK3
2032	1,240,000	4.000	1.320	124.395 <sup>C</sup>	AL1
2033	1,285,000	4.000	1.370	123.880 <sup>C</sup>	AM9
2034	1,340,000	4.000	1.440	123.164 <sup>C</sup>	AN7
2035	1,390,000	4.000	1.490	122.655 <sup>C</sup>	AP2
2036	1,445,000	4.000	1.530	122.250 <sup>C</sup>	AQ0
2037	1,505,000	4.000	1.580	121.745 <sup>C</sup>	AR8
2038	1,565,000	4.000	1.640	121.143 <sup>C</sup>	AS6
2039	1,630,000	4.000	1.670	120.843 <sup>C</sup>	AT4
2040	1,695,000	4.000	1.700	120.544 <sup>C</sup>	AU1
2041	1,760,000	4.000	1.730	120.246 <sup>C</sup>	AV9

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<sup>C</sup> Priced to first optional redemption date of September 1, 2031 at par.

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

Paul “Mac” McNamara, *Mayor*  
Michael Morasco, *Deputy Mayor and Council Member, District 4*  
Consuelo Martinez, *Council Member, District 1*  
Tin Inscoe, *Council Member, District 2*  
Joe Garcia, *Council Member, District 3*

**STAFF**

Sean McGlynn, *City Manager*  
Christopher W. McKinney, *Deputy City Manager and Director of Utilities*  
Christina Holmes, *Director of Finance*  
Michael McGuinness, Esq., *City Attorney*

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

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

**Trustee/Escrow Agent**

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

**Municipal Advisor**

CSG Advisors Incorporated  
San Francisco, 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 Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2021 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2021 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

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

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2021 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 2021 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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

*The 2021 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The 2021 Bonds have not been registered or qualified under the securities laws of any state. The Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exemption contained in such act.*

The City maintains a website. However, the information presented there is for informational purposes only, is not part of this Official Statement and must not be relied upon in making an investment decision with respect to the 2021 Bonds.

**TABLE OF CONTENTS**

	<i>Page</i>
SUMMARY STATEMENT .....	i
INTRODUCTION .....	1
PLAN OF FINANCE.....	2
The Refunding Plan.....	2
Estimated Sources And Uses Of Funds.....	4
THE 2021 BONDS .....	4
General Provisions .....	4
Transfers and Exchanges Upon Termination of Book-Entry Only System.....	5
Redemption of the 2021 Bonds .....	5
Notice of Redemption .....	5
Book-Entry Only System .....	6
DEBT SERVICE PAYMENT SCHEDULE .....	7
SECURITY FOR THE 2021 BONDS.....	7
Limited Obligations Payable From Net Revenues .....	7
Rate Covenant .....	10
Additional Indebtedness .....	10
No Reserve Fund.....	11
THE CITY .....	11
General .....	11
Land Use and Service Area .....	12
Governance and Management .....	12
Employees .....	14
Budget Process .....	15
City Insurance.....	15
Outstanding Parity Obligations .....	16
Seismic Considerations .....	18
COVID-19 Outbreak .....	18
THE WASTEWATER SYSTEM.....	21
General .....	21
Hale Avenue Resource Recovery Facility.....	21
Sewage Disposal Agreement.....	22
Environmental Compliance .....	23
Recycled Water System.....	24
Historical Wastewater System Connections.....	25
Historical Wastewater System Usage.....	25
Historical Recycled Water Sales .....	26
Historical Wastewater System Service Charge Revenues .....	26
Largest Wastewater System Customers .....	27
Wastewater System Rates and Charges.....	28
Collection Procedures.....	32
Future Wastewater System Improvements .....	33
Projected Wastewater System Connections .....	33
Projected Wastewater System Usage .....	33
Projected Recycled Water Sales .....	34
Projected Wastewater System Service Charge Revenues .....	34
WASTEWATER SYSTEM FINANCIAL INFORMATION .....	35
Financial Statements .....	35
Available Cash .....	36
General Fund Structural Deficit .....	36
Historical Operating Results and Debt Service Coverage.....	37
Projected Operating Results and Debt Service Coverage.....	39
Employee Benefits .....	41
CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES .....	45
Article XIII B.....	45
Proposition 218 .....	45
Proposition 26 .....	47
Future Initiatives .....	47
CERTAIN RISKS TO BONDHOLDERS .....	47
Limited Obligations .....	47
Accuracy of Assumptions .....	47
System Demand .....	48
System Expenses.....	48
Limited Recourse on Default .....	49
Rate-Setting Process under Proposition 218....	49
Statutory and Regulatory Compliance .....	49
Natural Disasters.....	49
Cybersecurity .....	50
Limitations on Remedies .....	50
Secondary Market .....	51
Parity Obligations .....	51
Climate Change.....	51
Rate Covenant Not a Guarantee.....	51
Loss of Tax Exemption.....	52
Drought Declarations .....	52
APPROVAL OF LEGAL PROCEEDINGS .....	53
LITIGATION .....	53
TAX MATTERS .....	53
RATING.....	55
MUNICIPAL ADVISOR.....	55
UNDERWRITING.....	55
CONTINUING DISCLOSURE .....	56
FINANCIAL INTERESTS .....	56
MISCELLANEOUS.....	57
APPENDIX A - FINANCIAL STATEMENTS A-1	
APPENDIX B - SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.....	B-1

**TABLE OF CONTENTS**  
**(continued)**

**Page**

APPENDIX C - FORM OF OPINION OF BOND COUNSEL.....	C-1
APPENDIX D - INFORMATION CONCERNING DTC .....	D-1
APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	E-1

## 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 2021 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 2021 Bonds are being issued to provide moneys: (i) to refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012; and (ii) to pay costs of issuance of the 2021 Bonds, all as more fully described herein. See the caption “PLAN OF FINANCE.”

**Security for the 2021 Bonds.** The 2021 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s Wastewater System remaining after the payment of Operation and Maintenance Costs, and from amounts on deposit in certain funds and accounts created under the Indenture.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

See the caption “SECURITY FOR THE 2021 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 Wastewater Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service and any amounts required to be paid to the provider of a reserve fund surety bond, if any, in such Fiscal Year.

**Outstanding Parity Obligations.** The obligation of the City to pay the 2021 Bonds from Net Revenues is on a parity with the obligation of the City to make payments on: (i) certain Contracts and Bonds which are currently outstanding in the aggregate principal amount of \$22,404,442; and (ii) certain Contracts upon which the City has not yet drawn, but under which the City may borrow up to a maximum principal amount of \$49,300,000, including a grant component totaling \$5,000,000.

**Additional Contracts and Bonds.** The Indenture permits the City to execute additional Contracts or to issue additional Bonds on a parity with the obligation to pay principal of and interest on the 2021 Bonds, provided that certain conditions are satisfied as described herein. See the caption “SECURITY FOR THE 2021 BONDS—Additional Indebtedness.” The Indenture also permits the City to execute or issue obligations payable on a subordinate basis to the 2021 Bonds.

**No Reserve Fund.** No debt service reserve fund or account has been established in connection with the issuance of the 2021 Bonds.

**Redemption.** The 2021 Bonds are subject to optional redemption prior to maturity as described herein. See the caption “THE 2021 BONDS—Redemption of the 2021 Bonds.”

***The City and the Wastewater System.*** The City was incorporated in 1888 under the general laws of the State of California. The City is located in the County of San Diego, in a long valley surrounded by coastal mountains approximately eighteen miles inland and thirty miles north of downtown San Diego. The City has a land area of approximately 37 square miles and an estimated population of 151,688 people as of January 1, 2021. Land use in the City is primarily residential, with areas of commercial and industrial development and areas devoted to agriculture. 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 provides wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021. The Wastewater System service area covers approximately 34 square miles and includes approximately 90% of the geographic area of the City and one small subdivision located outside of City limits. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 367 miles of sewer pipelines and 11 pumping stations.

The Hale Avenue Resource Recovery Facility is the City's principal wastewater treatment facility. The Hale Avenue Resource Recovery Facility is a standard activated sludge treatment plant with a rated capacity of 18 million gallons per day of which 12.7 million gallons per day is owned by the City. The Hale Avenue Resource Recovery Facility also includes facilities for the tertiary treatment of wastewater, which allows the City to produce up to 9 million gallons of recycled water per day from treated wastewater for various City landscape irrigation customers, including golf courses, school fields, City parks and green belts.

Revenues from both the City's wastewater service and recycled water sales are pledged to repayment of the 2021 Bonds.

**\$21,550,000**  
**CITY OF ESCONDIDO**  
**WASTEWATER REVENUE REFUNDING BONDS, SERIES 2021A**

**INTRODUCTION**

This Official Statement, including the front cover page, the inside front cover page and all appendices, provides certain information concerning the sale and delivery of the City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A (the “**2021 Bonds**”). The 2021 Bonds are being issued pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California and an Indenture of Trust, dated as of December 1, 2021 (the “**Indenture**”), by and between the City of Escondido (the “**City**”) and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the “**Trustee**”).

The 2021 Bonds are being issued to provide moneys: (i) to refund all of the outstanding Escondido Joint Powers Financing Authority Revenue Bonds (Wastewater System Financing), Series 2012 (the “**2012 Bonds**”); and (ii) to pay costs of issuance of the 2021 Bonds. See the caption “PLAN OF FINANCE.”

The 2021 Bonds are limited obligations of the City payable solely from Net Revenues, which consist of Revenues of the City’s municipal wastewater system and recycled water system (collectively, the “**Wastewater System**”) remaining after the payment of Operation and Maintenance Costs of the Wastewater System, as such terms are defined in Appendix B, and from amounts on deposit in certain funds and accounts created under the Indenture.

The obligation of the City to pay the 2021 Bonds from Net Revenues is on a parity with the obligation of the City to make payments on:

(a) the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A and Series 2015B (Taxable), which are currently outstanding in the total aggregate principal amount of \$9,080,000 (the “**2015 Bonds**”);

(b) five agreements with the State of California Water Resources Control Board (the “**SWRCB**”), namely the “**Water Reclamation Project State Loan**,” the “**Tertiary Treatment Facility State Loan**,” the “**Blower State Loan**,” the “**Recycled Water Easterly Main and Tanks Project Loan**” and the “**Brine Line Transmission Project Loan**,” which are currently outstanding in the total principal amount of \$13,324,442; and

(c) two agreements with the SWRCB, namely the “**Recycled Water Easterly Agriculture Distribution System Loan**” and the “**MFRO Facility Loan**,” upon which the City has not yet drawn, but under which the City may draw up to a maximum principal amount of \$49,300,000, including a grant component totaling \$5,000,000.

The City may incur additional obligations payable on a parity with the obligation to pay principal of and interest on the 2021 Bonds in the future as described under the caption “SECURITY FOR THE 2021 BONDS—Additional Indebtedness.”

The 2021 Bonds are subject to optional redemption prior to maturity as described herein. See the caption “THE 2021 BONDS—Redemption of the 2021 Bonds.”

The summaries and references to the Indenture and all documents, statutes, reports and other instruments that are referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to the full Indenture or the respective document, statute, report or instrument, copies of which are available for inspection at the offices of the City in

Escondido, California or from the Trustee upon request and payment of duplication cost. The capitalization of any word that is not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Indenture and, as used herein, has the meaning that is given to it in the Indenture. See Appendix B for a summary of the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the City.

The City regularly prepares a variety of reports, including audits, budgets and related documents. Any registered owner of the 2021 Bonds may obtain a copy of such reports, as available, from the Trustee or the City. Additional information regarding the Official Statement may be obtained by contacting the Trustee or the City of Escondido, 201 North Broadway, Escondido, California 92025, Attention: Finance Department.

The City has also undertaken to provide annual reports and notice of certain enumerated events 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.

Changes have been made to this Official Statement since the Preliminary Official Statement dated October 28, 2021: (i) under the caption "CERTAIN RISKS TO BONDHOLDERS—Drought Declarations" to reflect the activation of Level 1 of San Diego County Water Authority's water shortage contingency plan; and (ii) under the caption "UNDERWRITING" to disclose the signing of a distribution agreement between the Underwriter and its affiliate.

A change has been made to this Official Statement since the Preliminary Official Statement dated October 28, 2021 under the caption "THE CITY—Governance and Management—Management Policies—Budgetary and Financial Policy" to update the balance assigned to the Section 115 Trust for the City's pension obligations.

## PLAN OF FINANCE

### The Refunding Plan

The 2012 Bonds, which are currently outstanding in the aggregate principal amount of \$25,800,000, were issued pursuant to an Indenture of Trust, dated as of February 1, 2012 (the "**2012 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 "**2012 Trustee**"). The 2012 Bonds are payable from installment payments payable by the City to the Authority under an Installment Purchase Agreement, dated as of February 1, 2012 (the "**2012 Installment Purchase Agreement**"), by and between the City and the Authority.

The City plans to apply a portion of the proceeds of the 2021 Bonds, together with City moneys, to defease the outstanding 2012 Bonds as of the date of issuance of the 2021 Bonds, and to redeem the 2012 Bonds in full on March 1, 2022. The 2012 Bonds are described in the following table.

<i>Principal Payment Date (September 1)</i>	<i>CUSIP®<sup>†</sup> (29634E)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Redemption Price</i>
2022	BX9	\$ 195,000	4.000%	100%
2023	BY7	205,000	4.000	100
2024	BZ4	215,000	3.000	100
2025	CA8	220,000	3.250	100
2026	CB6	235,000	3.375	100
2028	CD2	2,375,000	5.000	100
2030	CF7	2,615,000	5.000	100
2031	CG5	1,410,000	4.000	100
2033	CH3	3,000,000	5.000	100
2036	CE0	3,575,000	5.000	100
2036	CJ9	1,500,000	4.250	100
2041	CK6	<u>10,255,000</u>	5.000	100
TOTAL		<u>\$25,800,000</u>		

Under an Escrow Agreement (2012 Bonds), dated as of December 1, 2021 (the “**2012 Escrow Agreement**”), by and among the City, the Authority and the 2012 Trustee, the City will deliver a portion of the proceeds of the 2021 Bonds to the 2012 Trustee for deposit in the escrow fund established under the 2012 Escrow Agreement (the “**2012 Escrow Fund**”). The 2012 Trustee will invest a portion of the amounts so deposited in the 2012 Escrow Fund in Federal Securities (as described in the 2012 Escrow Agreement). From the maturing principal of the Federal Securities and related investment income and any uninvested moneys on deposit in the 2012 Escrow Fund, the 2012 Trustee will pay on March 1, 2022 the principal of the 2012 Bonds maturing after such date, plus interest accrued to such date, without premium (the “**2012 Bonds Redemption Price**”).

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**”), and 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 the 2012 Bonds Redemption Price. 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 Indenture as of the date of issuance of the 2021 Bonds.

The amounts held by the 2012 Trustee in the 2012 Escrow Fund are pledged solely to the payment of the 2012 Bonds and will not be available for the payments on the 2021 Bonds.

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## Estimated Sources And Uses Of Funds

The following table sets forth the estimated sources and uses of funds relating to the 2021 Bonds:

### *Sources:*

Principal Amount	\$ 21,550,000.00
Original Issue Premium	4,523,888.75
Other Moneys <sup>(1)</sup>	<u>624,341.73</u>
Total Sources	<u>\$ 26,698,230.48</u>

### *Uses:*

Transfer to 2012 Trustee for Deposit in 2012 Escrow Fund	\$ 26,424,340.63
Costs of Issuance <sup>(2)</sup>	<u>273,889.85</u>
Total Uses	<u>\$ 26,698,230.48</u>

<sup>(1)</sup> Reflects moneys held in funds and accounts established under the 2012 Indenture and other City moneys.

<sup>(2)</sup> Includes Underwriter's discount and certain legal, municipal advisory, rating agency, printing and other financing-related costs.

Source: Underwriter.

## THE 2021 BONDS

### General Provisions

The 2021 Bonds will be issued in the aggregate principal amount of \$21,550,000. The 2021 Bonds will be dated as of their date of initial issuance, will bear interest from such date at the rates per annum set forth on the inside front cover page hereof, payable on September 1, 2022 and each March 1 and September 1 thereafter (each, an "**Interest Payment Date**"), and will mature on the dates set forth on the inside front cover page hereof. Interest on the 2021 Bonds will be computed on the basis of a 360 day year composed of twelve 30 day months.

The 2021 Bonds will be issued only in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("**DTC**"). DTC will act as securities depository for the 2021 Bonds. Ownership interests in the 2021 Bonds may be purchased in book-entry form, in any integral multiple of \$5,000. See the caption "**—Book-Entry Only System**" below and Appendix D.

In the event that the book-entry only system that is described below is discontinued, the principal of and redemption premium (if any) on the 2021 Bonds are payable by check of the Trustee upon presentation and surrender thereof at maturity or upon prior redemption at the office of the Trustee in Los Angeles, California (the "**Office of the Trustee**"). Interest on the 2021 Bonds is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "**Registration Books**") as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the "**Record Date**"), such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at such Owner's address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of 2021 Bonds may, at such Owner's option, be paid by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium, if any, on the 2021 Bonds will be payable in lawful money of the United States.

Each 2021 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest

Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before August 15, 2022, in which event it will bear interest from its date of issuance; provided, however, that if, as of the date of authentication of any 2021 Bond, interest thereon is in default, such 2021 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

### **Transfers and Exchanges Upon Termination of Book-Entry Only System**

In the event that the book-entry system that is described herein is discontinued, the 2021 Bonds will be printed and delivered as provided in the Indenture. Thereafter, any 2021 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 2021 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 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption.

Whenever any 2021 Bond or 2021 Bonds are surrendered for transfer, the City will execute and the Trustee will authenticate and deliver a new 2021 Bond or 2021 Bonds of authorized denomination or denominations for a like aggregate principal amount of the same maturity. The Trustee will require the 2021 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 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

The 2021 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same maturity. The Trustee is not required to exchange any 2021 Bond during the period in which the Trustee is selecting 2021 Bonds for redemption and any 2021 Bond that has been selected for redemption. The Trustee will require the 2021 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 2021 Bonds, the Trustee will cancel and destroy the 2021 Bonds that it has received.

Prior to any transfer of the 2021 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.

### **Redemption of the 2021 Bonds**

The 2021 Bonds with stated maturities on or after March 1, 2032, are subject to redemption prior to their respective stated maturities, as a whole or in part on March 1, 2031, or any date thereafter, as directed by the City in a Written 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, at a Redemption Price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

### **Notice of Redemption**

Notice of redemption will be sent electronically or mailed by first class mail at least 20 days but not more than 60 days before any Redemption Date, to the respective Owners of any 2021 Bonds designated for redemption at their addresses appearing on the Registration Books, to the Securities Depositories and to the Information Services. Each notice of redemption will state the date of notice, the Redemption Date, the place or places of redemption, the Redemption Price, will designate the maturities, CUSIP numbers, if any, and, in

the case of 2021 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 2021 Bonds or parts thereof designated for redemption the Redemption Price thereof or of said specified portion of the principal thereof in the case of a 2021 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 2021 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 2021 Bond. Notice of redemption of 2021 Bonds will be given by the Trustee, at the expense of the City, for and on behalf of the City.

With respect to any notice of optional redemption of 2021 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 2021 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 2021 Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

### **Book-Entry Only System**

One fully-registered 2021 Bond of each maturity will be issued in the principal amount of the 2021 Bonds of such maturity. Such 2021 Bond will be registered in the name of Cede & Co. and will be deposited with DTC. As long as the ownership of the 2021 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 2021 Bonds (the “**Beneficial Owners**”).

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2021 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. See the caption “—Transfers and Exchanges Upon Termination of Book-Entry Only System.”

The City cannot and does not give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 2021 Bonds received by DTC or its Nominee as the registered Owner, or any redemption or other notices, to the Beneficial Owners (as such term is defined in Appendix D), 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.

## DEBT SERVICE PAYMENT SCHEDULE

Set forth below is an annualized schedule of principal of and interest on the 2021 Bonds for the period ending June 30 in each of the years indicated, assuming no optional redemptions of the 2021 Bonds.

<i>Period Ending June 30</i>	<i>Parity Obligation Debt Service<sup>(1)</sup></i>	<i>2021 Bonds Principal</i>	<i>2021 Bonds Interest</i>	<i>2021 Bonds Debt Service</i>	<i>Total Debt Service</i>
2022	\$ 4,409,859	\$ -	\$ -	\$ -	\$ 4,409,859
2023	4,415,203	-	1,030,452	1,030,452	5,445,655
2024	4,280,997	280,000	831,788	1,111,788	5,392,785
2025	4,293,633	295,000	824,344	1,119,344	5,412,977
2026	4,290,064	295,000	820,656	1,115,656	5,405,720
2027	3,765,320	305,000	816,906	1,121,906	4,887,226
2028	2,161,195	1,020,000	794,600	1,814,600	3,975,795
2029	2,161,195	1,060,000	753,000	1,813,000	3,974,195
2030	2,161,195	1,100,000	709,800	1,809,800	3,970,995
2031	2,161,195	1,145,000	664,900	1,809,900	3,971,095
2032	2,161,195	1,195,000	618,100	1,813,100	3,974,295
2033	2,161,195	1,240,000	569,400	1,809,400	3,970,595
2034	2,161,195	1,285,000	518,900	1,803,900	3,965,095
2035	2,161,195	1,340,000	466,400	1,806,400	3,967,595
2036	2,161,195	1,390,000	411,800	1,801,800	3,962,995
2037	2,161,195	1,445,000	355,100	1,800,100	3,961,295
2038	2,161,195	1,505,000	296,100	1,801,100	3,962,295
2039	2,161,195	1,565,000	234,700	1,799,700	3,960,895
2040	2,161,195	1,630,000	170,800	1,800,800	3,961,995
2041	2,161,195	1,695,000	104,300	1,799,300	3,960,495
2042	2,161,195	1,760,000	35,200	1,795,200	3,956,395
2043	2,161,195	-	-	-	2,161,195
2044	2,161,195	-	-	-	2,161,195
2045	2,161,195	-	-	-	2,161,195
2046	2,161,195	-	-	-	2,161,195
2047	2,161,195	-	-	-	2,161,195
2048	2,161,195	-	-	-	2,161,195
2049	2,161,195	-	-	-	2,161,195
2050	2,161,195	-	-	-	2,161,195
2051	1,943,444	-	-	-	1,943,444
2052	1,704,630	-	-	-	1,704,630
2053	1,704,630	-	-	-	1,704,630
2054	110,428	-	-	-	110,428
<b>TOTAL</b>	<b>\$80,625,696</b>	<b>\$21,550,000</b>	<b>\$11,027,246</b>	<b>\$32,577,246</b>	<b>\$113,202,939</b>

<sup>(1)</sup> Reflects debt service on: (i) the 2015 Bonds, the Water Reclamation Project State Loan, the Tertiary Treatment Facility State Loan, the Blower State Loan, the Recycled Water Easterly Main and Tanks Project Loan and the Brine Line Transmission Project Loan; (ii) the Recycled Water Easterly Agriculture Distribution System Loan, assuming that the City borrows the maximum available principal amount of \$2,690,000 (excluding a grant component); and (iii) the MFRO Facility Loan, assuming that the City borrows the maximum available principal amount of \$41,610,000 (excluding a grant component). See the caption "THE CITY—Outstanding Parity Obligations."

Source: Underwriter.

## SECURITY FOR THE 2021 BONDS

### Limited Obligations Payable From Net Revenues

**General.** The City is obligated to make payments of principal of and interest on the 2021 Bonds solely from Net Revenues. The term "Net Revenues" means, for any period, the Revenues of the Wastewater

System for such period less the Operation and Maintenance Costs of the Wastewater System for such period. See Appendix B for detailed definitions of “Revenues” and “Operation and Maintenance Costs.” When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or realized gain derived from the investment of amounts in any of such funds or accounts.

THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS PURSUANT TO THE INDENTURE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE GENERAL CREDIT OR TAXING POWER OF THE CITY IS PLEDGED. THE OBLIGATION OF THE CITY TO PAY PRINCIPAL OF AND INTEREST ON THE 2021 BONDS IS A SPECIAL OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

***Pledge and Assignment; Revenue Fund.*** All of the Revenues, all amounts held in the Revenue Fund, and any other amounts (including proceeds of the sale of the 2021 Bonds) held in any fund or account established pursuant to the Indenture (other than the Costs of Issuance Fund and the Rebate Fund) have been irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the 2021 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues may not be used for any other purpose while the 2021 Bonds remain Outstanding; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. Said pledge, together with the pledge created by all other parity Contracts and Bonds (as such terms are defined in Appendix B), constitutes a first lien on and security interest on Revenues and, subject to application of Revenues and all amounts on deposit therein as permitted in the Indenture, the Revenue Fund and other funds and accounts created under the Indenture for the payment of the principal of and interest, and the premium, if any, on the 2021 Bonds and all Contracts and Debt Service on Bonds in accordance with the terms of the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice of the Indenture.

In order to carry out and effectuate the pledge and lien contained in the Indenture, the City has agreed and covenanted that all Revenues will be received by the City in trust under the Indenture and will be deposited when and as received in the Revenue Fund, which fund the City has agreed and covenanted to maintain and to hold separate and apart from other funds so long as the 2021 Bonds and any Contracts or Debt Service on Bonds remain unpaid. Moneys in the Revenue Fund will be used and applied by the City as provided in the Indenture. All moneys in the Revenue Fund will be held in trust and will be applied, used and withdrawn for the purposes set forth below.

The City will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund will be set aside by the City at the following times for the transfer to the following respective special funds in the following order of priority:

(i) **Interest and Principal Payments.** Not later than the Business Day prior to each Interest Payment Date, the City will, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund or the Redemption Fund the payments of interest and principal or mandatory sinking fund payments, as applicable, on the 2021 Bonds due and payable on such Interest Payment Date. The City will also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(ii) Reserve Funds. After making the payments, allocations or transfers provided for in clause (i) above, the City will, from the 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 such reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement applicable to such Bonds or Contracts, as applicable.

(iii) Subordinate Obligations. After making the payments, allocations or transfers provided for in clauses (i) and (ii) above, the City will, from the 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 in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any debt service on obligations which are payable from Net Revenues on a subordinate basis to Bonds and Contracts.

(iv) Surplus. Moneys on deposit in the Revenue Fund on any date when the City reasonably expects such moneys will not be needed for the payment of Operation and Maintenance Costs or any of the purposes described in clauses (i), (ii) or (iii) above may be expended by the City at any time for any purpose permitted by law.

(v) Investments. All moneys 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 herein.

***Allocation of Revenues.*** There has been established with the Trustee the Payment Fund, which the Trustee has covenanted to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2021 Bonds remain unpaid. Except as directed in the Indenture, all payments of interest and principal on the 2021 Bonds received by the Trustee as described above under the subcaption “—Pledge and Assignment; Revenue Fund” will be promptly deposited by the Trustee upon receipt thereof into the 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 payments of interest and principal on the 2021 Bonds deposited with the Trustee will be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee will also establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee will transfer from the Payment Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee will deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2021 Bonds then Outstanding. No deposit need be made into the Interest Account so long as there is in such fund moneys sufficient to pay the interest becoming due and payable on such date on all 2021 Bonds then Outstanding.

All amounts in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2021 Bonds as it becomes due and payable (including accrued interest on any 2021 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

(b) Not later than the Business Day preceding each date on which the principal or mandatory sinking fund payments of the 2021 Bonds become due and payable under the Indenture, the Trustee will deposit in the Principal Account or the Redemption Fund, as applicable, that sum, if any, required to cause the aggregate amount on deposit in the Principal Account or the Redemption Fund, as applicable, to equal the principal or mandatory sinking fund payment amount of the 2021 Bonds coming due and payable on such date. No deposit need be made into the Principal Account or the Redemption Fund, as applicable, so long as there is in such account or fund moneys sufficient to pay the principal becoming due and payable on such date on all 2021 Bonds then Outstanding.

All amounts in the Principal Account will be used and withdrawn by the Trustee solely to pay the principal amount of the 2021 Bonds at maturity, purchase or acceleration; provided, however, that at any time prior to selection for redemption of any such 2021 Bonds, upon written direction of the City, the Trustee will apply such amounts to the purchase of 2021 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2021 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 Wastewater Service which are reasonably expected, at the commencement of such Fiscal Year, to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service and any amounts required to be paid to the provider of a reserve fund surety bond, if any, in such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but 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 requirements of this section.

To the extent that the covenant with respect to rates and charges in connection with any Bonds or Contracts differs from the foregoing covenant, the City will also comply with the covenant with respect to rates and charges in connection with such Bonds or Contracts.

### **Additional Indebtedness**

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

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

(b) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Contract or the date of adoption by the City Council of the City of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such twelve month period to increases or decreases in rates and charges for the Wastewater Service approved and in effect as of the date of calculation, as evidenced by both a calculation prepared by the City and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the City, produce a sum equal to at least 115% of the sum of: (1) the Debt Service for such twelve month period; plus (2) the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such twelve month period,

assuming that such Contracts had been executed or Bonds had been issued at the beginning of such twelve month period; plus (3) the Debt Service which would have accrued had such proposed additional Contract been executed or such proposed additional Bonds been issued at the beginning of such twelve month period.

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

Furthermore, notwithstanding the foregoing, the City may at any time issue evidence of indebtedness or incur other obligations for any lawful purpose that are payable from and secured by a lien on Revenues or money in the Revenue Fund as may from time to time be deposited therein on a basis that is subordinate to the 2021 Bonds.

### **No Reserve Fund**

No debt service reserve fund or account has been established in connection with the issuance of the 2021 Bonds.

## **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 151,688 people as of January 1, 2021. 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. See the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—General Fund Structural Deficit” for a discussion of a structural deficit within the City’s General Fund, primarily as a result of the costs of providing police and fire services.

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 wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021. The Wastewater System service area covers approximately 34 square miles and includes approximately 90% of the geographic area of the City and a portion of the community of Rancho Bernardo, which is located outside of City limits in the City of San Diego. A small number of customers within City limits receive wastewater service from Vallecitos Water District. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 367 miles of sewer pipelines and 11 pumping stations.

The Hale Avenue Resource Recovery Facility (the “**HARRF**”) is the City’s principal wastewater treatment facility. The HARRF is a standard activated sludge treatment plant with a rated capacity of 18 million gallons per day (“**MGD**”), of which 12.7 MGD is owned by the City. See the captions “THE WASTEWATER SYSTEM—Hale Avenue Resource Recovery Facility” and “THE WASTEWATER SYSTEM—Sewage Disposal Agreement.”

The HARRF also includes facilities for the tertiary treatment of wastewater, which allows the City to produce up to 9 MGD of recycled water from treated wastewater at the HARRF for various City landscape irrigation customers, including golf courses, school fields, City parks and green belts. Recycled water deliveries offset higher cost purchases of imported potable water and represent an additional reliable source of local water supply.

Revenues from both the City’s wastewater service and recycled water sales are pledged to repayment of the 2021 Bonds.

**Land Use and Service Area**

The Wastewater System provides wastewater service to approximately 90% of the geographic area of the City and a portion of the community of Rancho Bernardo, a neighborhood in the City of San Diego. The service area is largely built out and encompasses single family and multifamily residences as well as areas of commercial, industrial and agricultural land uses. The combined population within the Escondido/Rancho Bernardo Wastewater System service area is currently estimated at approximately 184,413 people.

**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
Michael Morasco, Deputy Mayor and Council Member, District 4	December 2024
Consuelo Martinez, Council Member, District 1	December 2022
Tina Inscoc, Council Member, District 2	December 2022
Joe Garcia, Council Member, District 3	December 2024

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.

Sean McGlynn has served as the City Manager since June 2021. Prior to coming to the City, Mr. McGlynn served as the City Manager of Santa Rosa, California and as the Deputy City Manager of El Paso, Texas. Mr. McGlynn obtained a Bachelor’s degree in History from the University of Pittsburgh and a Master’s degree in Theater from the University of California, Los Angeles. Mr. McGlynn is a member of the International City/County Management Association.

Other key personnel responsible for management of the Wastewater System include the Deputy City Manager/Director of Utilities and Director of Finance.

Christopher W. McKinney is the Deputy City Manager and 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.

Christina Holmes is the Director of Finance of the City. Ms. Holmes has been with the City since 2010. 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. Holmes served as an Audit Supervisor specializing in financial statement and compliance audits for various cities and agencies throughout the State. Ms. Holmes obtained a Bachelor's degree in Business Administration with an emphasis in Accounting from Biola University and has held a Certified Public Accountant's license since 2011. Ms. Holmes is a member of the Government Finance Officers Association and the California Society of Municipal Finance Officers.

**Management Policies.** The City has adopted several policies that are 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 2020. 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 180-day maturities and 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, 2021, the City had a total of \$206,611,765 in permitted investments under the Investment Policy. Of such amounts, approximately 20% were allocated to the Wastewater 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. See the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—General Fund Structural Deficit” for a discussion of a structural deficit within the City’s General Fund, primarily as a result of the costs of providing police and fire services. In compliance with the budgetary and financial policy, the City anticipates applying one-time funding to balance its budget while such structural deficit remains a concern.

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, 2021, the reserve balance is \$17,392,319, which constitutes approximately 16% of General Fund operating revenues. As described under the caption “SECURITY FOR THE 2021 BONDS—Limited Obligations Payable from Net Revenues,” only Wastewater System Revenues are pledged to the payment of the 2021 Bonds and other Contracts and Bonds; General Fund moneys are not pledged to or available therefor.

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, 2021, the balance in the Section 115 Trust was \$26,852,548. See the caption “WASTEWATER SYSTEM 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; and (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, 2021, the City had approximately 739 full-time equivalent employees, of whom approximately 73 worked solely on behalf of the Wastewater System. In addition, 11 employees worked in Environmental Programs, with responsibility for implementing State and federal regulations and policies pertaining to watershed protection. Certain employees of the Utilities 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 and M&O Unit are governed by memoranda of understanding which expire on June 30, 2023. 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 2022 budget on June 9, 2021.

See the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—General Fund Structural Deficit" for a discussion of a structural deficit within the City's General Fund.

### **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. Certain Wastewater System pipelines are not covered by property insurance. The City does not carry earthquake coverage for the majority of its assets.

See the captions "THE WASTEWATER SYSTEM—Seismic Considerations" 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 "COVENANTS OF THE CITY—Insurance" for a description of insurance coverages that are required to be maintained while the 2021 Bonds are outstanding.

## Outstanding Parity Obligations

The City has incurred certain obligations that are payable from Net Revenues on a parity with the 2021 Bonds, as summarized in the below table.

### CITY OF ESCONDIDO WASTEWATER SYSTEM Parity Obligations

<i>Obligation</i>	<i>Outstanding Principal Amount</i>	<i>Maximum Available Principal Amount of Undrawn Obligations</i>	<i>Final Maturity</i>
2015 Bonds	\$ 9,080,000	\$ N/A	09/01/2026
Water Reclamation Project State Loan	1,975,444	N/A	04/01/2023
Tertiary Treatment Facility State Loan	1,482,260	N/A	04/01/2023
Blower State Loan	372,642	N/A	12/30/2024
Recycled Water Easterly Main and Tanks Project Loan	4,607,926	N/A	02/01/2051
Brine Line Transmission Project Loan	4,886,170	N/A	10/23/2049
Recycled Water Easterly Agriculture Distribution System Loan	0 <sup>(1)</sup>	4,300,000 <sup>(1)</sup>	07/03/2053 <sup>(3)</sup>
MFRO Facility Loan	0 <sup>(2)</sup>	45,000,000 <sup>(2)</sup>	03/31/2053 <sup>(3)</sup>
<b>Total</b>	<b>\$22,404,442</b>	<b>\$49,300,000</b>	

<sup>(1)</sup> The City has not yet drawn any amounts under this loan, but the maximum amount available is \$4,300,000, which includes a \$1,610,000 grant component.

<sup>(2)</sup> The City has not yet drawn any amounts under this loan, but the maximum amount available is \$45,000,000, which includes a \$3,390,000 grant component.

<sup>(3)</sup> Payment schedule not yet finalized. Reflects anticipated final maturity date. Subject to change.

Source: City.

The above table does not include information with respect to the 2012 Bonds, which are being refunded from proceeds of the 2021 Bonds. See the caption “PLAN OF FINANCE—The Refunding Plan.”

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

**2015 Bonds.** The City issued the 2015 Bonds to refinance certain capital improvements of the Wastewater System. The 2015 Bonds are currently outstanding in the aggregate principal amount of \$9,080,000 and have a final maturity on September 1, 2026. The City is obligated to pay principal of and interest on the 2015 Bonds from Net Revenues of the Wastewater System on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

**HARRF/Tertiary Treatment Facility State Loans.** In 1999, the City entered into a revolving loan contract with the SWRCB to finance the construction of a tertiary treatment facility for the HARRF and a delivery system for recycled water. The project was financed in several phases, of which two remain outstanding: the “Water Reclamation Project State Loan” and the “Tertiary Treatment Facility State Loan”).

The Water Reclamation Project State Loan is currently outstanding in the aggregate principal amount of \$1,975,444 and is payable in annual installments of \$987,722, without interest. The final payment under the Water Reclamation Project State Loan is payable on April 1, 2023. The obligation of the City to make payments on the Water Reclamation Project State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

The Tertiary Treatment Facility State Loan is currently outstanding in the aggregate principal amount of \$1,482,260 and is payable in annual installments of \$741,130, without interest. The final payment under the

Tertiary Treatment Facility State Loan is payable on April 1, 2023. The obligation of the City to make payments on the Tertiary Treatment Facility State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

***Blower State Loan.*** In 1999, the City entered into the Blower State Loan with the SWRCB to finance the acquisition of a large automated aeration blower to replace certain capital facilities at the HARRF. The Blower State Loan is currently outstanding in the aggregate principal amount of \$372,642 and is payable in annual installments of \$98,817. The final payment under the Blower State Loan is payable on December 30, 2024. The obligation of the City to make payments on the Blower State Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

***Recycled Water Easterly Main and Tanks Project Loan.*** In 2017, the City entered into the Recycled Water Easterly Main and Tanks Project Loan to finance the construction of a transmission pipeline to the HARRF. The Recycled Water Easterly Main and Tanks Project Loan is currently outstanding in the aggregate principal amount of \$4,607,926 and is payable in annual installments of \$238,814. The final payment under the Recycled Water Easterly Main and Tanks Project Loan is payable on February 1, 2051. The obligation of the City to make payments on the Recycled Water Easterly Main and Tanks Project Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

***Brine Line Transmission Project Loan.*** In 2017, the City entered into the Brine Line Transmission Project Loan to finance the construction of a brine transmission pipeline to the HARRF, as discussed under the caption “THE WASTEWATER SYSTEM—Largest Wastewater System Customers—Power Generating Facility.” The Brine Line Transmission Project Loan is currently outstanding in the aggregate principal amount of \$4,886,170 and is payable in annual installments of \$217,751. The final payment under the Brine Line Transmission Project Loan is payable on October 23, 2049. The obligation of the City to make payments on the Brine Line Transmission Project Loan is payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

***Recycled Water Easterly Agriculture Distribution System Loan.*** In 2021, the City entered into the Recycled Water Easterly Agriculture Distribution System Loan to finance the construction of a 2.2 mile long, 8” to 20” diameter recycled water distribution pipeline to serve agricultural customers of the City. The City has not yet made any draws under the Recycled Water Easterly Agriculture Distribution System Loan, but expects to make an initial draw in late 2021, with the final draw expected to be made in or about late 2022. The maximum amount available under the Recycled Water Easterly Agriculture Distribution System Loan is \$4,300,000, including a grant component of \$1,610,000. When drawn in full, the Recycled Water Easterly Agriculture Distribution System Loan is expected to be payable in annual installments of \$110,428 beginning in or about late 2023. The final payment under the Recycled Water Easterly Agriculture Distribution System Loan is expected to be payable on July 3, 2053. The obligation of the City to make payments on the Recycled Water Easterly Agriculture Distribution System Loan will be payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

***MFRO Facility Loan.*** In 2021, the City entered into the MFRO Facility Loan to finance the construction of a membrane filtration reverse osmosis facility. The City has not yet made any draws under the MFRO Facility Loan, but expects to make an initial draw in late 2021, with the final draw expected to be made in or about mid-2023. The maximum amount available under the MFRO Facility Loan is \$45,000,000, including a grant component of \$3,390,000. When drawn in full, the MFRO Facility Loan is expected to be payable in annual installments of \$1,594,202 beginning in or about mid-2024. The final payment under the MFRO Facility Loan is expected to be payable on March 31, 2053. The obligation of the City to make payments on the MFRO Facility Loan will be payable from Net Revenues on a parity with the obligation of the City to pay principal of and interest on the 2021 Bonds.

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

## Seismic Considerations

The City is located in a seismically active region. A safety report for parts of the City's municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the Wastewater System. 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 Wastewater System. The City has an emergency operations center that would be activated under such circumstances.

Newer Wastewater System facilities are designed to withstand earthquakes with minimal damage, as earthquake loads are taken into consideration in the design of project structures. The City has also undertaken a vulnerability assessment of critical Wastewater System facilities. The vulnerability assessment ranks Wastewater System infrastructure by importance, builds redundancy into existing operations and includes contingency plans in the event of damage to City assets and succession plans for critical staff. The impact of lesser magnitude events is expected by the City to be temporary, localized and repairable. The Wastewater System has never sustained major damage to its facilities or experienced extended incidences of service interruptions as a result of seismic disturbances.

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

## COVID-19 Outbreak

The spread of the novel strains of coronavirus collectively called SARS-CoV-2, which cause the disease known as COVID-19 (“COVID-19”), and local, State and federal actions in response to COVID-19, have impacted the City's operations and finances. In response to the increasing number of COVID-19 infections and fatalities, health officials and experts recommended, and some governments mandated, a variety of responses ranging from travel bans and social distancing practices to complete shutdowns of certain services and facilities. The World Health Organization has declared the COVID-19 outbreak to be a pandemic and, on March 4, 2020, as part of the State's response to address the outbreak, the Governor declared a state of emergency. On March 13, 2020, the President declared a national emergency, freeing up funding for federal assistance to state and local governments. Many school districts across the State temporarily closed some or all school campuses (including schools within the City) in response to local and State directives or guidance.

On March 19, 2020, the Governor issued Executive Order N-33-20, a mandatory Statewide shelter-in-place order applicable to all non-essential services. Certain aspects of the shelter-in-place directives were extended indefinitely until indicators for modifying the stay-at-home order were met. The County also declared a state of emergency in response to the COVID-19 outbreak. On May 4, 2020, the Governor issued an executive order informing local health jurisdictions and industry sectors that they could gradually re-open under new modifications and guidance provided by the State. A phased re-opening of various sectors was underway since mid-2020 in accordance with a four-stage re-opening plan that ended with a full reopening of the economy on June 15, 2021. Although pursuant to the re-opening plan certain restrictions on activities were eased, restrictions were also re-imposed in various jurisdictions (including Los Angeles County to the northwest of the City) as local conditions warranted, and such restrictions may be renewed as the pandemic continues.

On March 27, 2020, the President signed the \$2.2 trillion Coronavirus Aid, Relief, and Economic Stabilization Act (the “CARES Act”) which provides, among other measures, \$150 billion in financial aid to states, tribal governments and local governments to provide emergency assistance to those most significantly impacted by COVID-19. Under the CARES Act, local governments are eligible for reimbursement of certain costs which were expended to address the impacts of the pandemic. The City received a total reimbursement

of \$4.6 million under the CARES Act. The funds received by the City under the CARES Act are not available for payment of the 2021 Bonds and cannot be used to backfill any City revenue losses related to COVID-19.

On December 27, 2020, the President signed the \$900 billion Coronavirus Response and Relief Supplemental Appropriations Act. Although the act did not provide additional financial assistance to state and local governments, it did extend the deadline (to October 2021) for them to use unspent funds that were previously approved under the CARES Act.

On March 11, 2021, the President signed the American Rescue Plan Act of 2021 (the “**ARP Act**”), a \$1.9 trillion economic stimulus package designed to help the United States’ economy recover from the adverse impacts of the COVID-19 pandemic. The ARP Act includes approximately \$350 billion in aid to state and local governments such as the City, consisting of both direct funding from the United States Department of Treasury and program moneys that will flow from other federal agencies. Half of the aid to state and local governments was distributed in spring 2021, with the other half following in 2022. The City has been allocated a total of approximately \$38.8 million, of which approximately half was received in July 2021. This funding is available for a broad range of uses, including responding directly to the health emergency, addressing its negative economic impacts with assistance to households and small businesses, restoring government services that were reduced in response to pandemic-related revenue losses and making certain necessary infrastructure improvements.

The City Council adopted a preliminary spending plan for the ARP Act funds on September 29, 2021, approving projects that total approximately \$28 million and setting aside approximately \$10 million to be appropriated at a future date. The proposed projects include: (i) resources to support the public health response to the pandemic (\$5.4 million); (ii) funding to promote and stimulate economic growth and address negative economic impacts caused by the public health emergency (\$17.1 million); (iii) replacement of lost revenue (\$6.0 million); and (iv) a broadband study (\$150,000). The recommended projects are expected to provide long-term benefits to those impacted by the pandemic citywide and make strategic investments in the City’s infrastructure to connect the community by improving access to schools, parks, and commerce. The City does not expect that ARP Act funds received by the City will be available to pay debt service on the 2021 Bonds.

The effects of the COVID-19 outbreak and governmental actions responsive to it have altered the behavior of businesses and people in a manner that has had significant negative impacts on global and local economies. In addition, financial markets in the United States and globally have experienced significant volatility attributed to COVID-19 concerns. Volatility in the financial markets caused the California Public Employees Retirement System’s (“**CalPERS**”) earnings to fall below its investment targets in Fiscal Year 2020, which could result in increases in the City’s unfunded pension liability and future pension costs commencing in Fiscal Year 2023, although the City notes that CalPERS investment earnings exceeded 21% in Fiscal Year 2021. See the caption “**WASTEWATER SYSTEM FINANCIAL INFORMATION—Employee Benefits—Pension Obligations.**” The outbreak resulted in short-term pressure on State finances as budgetary resources were directed towards containing the pandemic and tax revenues sharply declined in early 2020, although State revenues quickly recovered during the middle and later part of 2020. Identified cases of COVID-19 and deaths attributable to the COVID-19 outbreak continue to occur throughout the United States, including the County.

Potential impacts to the City associated with the COVID-19 outbreak include, but are not limited to, increasing costs and challenges to the public health system in and around the City, cancellations of public events and disruption of the regional and local economy, with corresponding decreases in the City’s revenues, including as a result of reduced need for wastewater services (particularly among commercial and hotel establishments).

In addition, the Governor has suspended utility service shutoffs (including for the Wastewater System) through December 31, 2021, and the City will not seek to collect late fees or penalties. Although no service

charges are being forgiven, the City's accounts receivable amount has increased as a result of the foregoing policy. See the caption "THE WASTEWATER SYSTEM—Collection Procedures."

In response to the COVID-19 outbreak, the City declared the Wastewater System to be an essential service, modified its operations to implement remote work opportunities for employees and provide City services online, closed many City facilities to the public, cancelled many programs, rentals and community events and deferred several non-essential capital improvement projects. With improvements in local case rates, the City has phased in the resumption of normal operations and activities while complying with public health orders and California Occupational Safety and Health Administration COVID-19 Prevention Plan mandates. Large gatherings of City personnel at any one time were prohibited for much of 2020 and early 2021 per health officer orders and on-site personnel wore masks and practiced social distancing while working. City Council and other board meetings occurred via teleconference, and public comment and participation for City Council meetings was also conducted via teleconference and electronic means. The City has not experienced and does not at this time foresee a future negative impact on the execution of City services as a result of the COVID-19 outbreak. The City has worked diligently to provide its employees with personal protective equipment and voluntary access to vaccinations. To date, there has been no evidence of employee-to-employee transmission or contraction of COVID-19 from members of the public in the course of an employee's work. However, there can be no assurance that absences of employees or City leadership due to COVID-19 will not adversely impact City operations.

The City also moved Wastewater System employees to multiple locations in order to prevent large gatherings of personnel at any one time and maintain their health and the operations of the Wastewater System. In addition, on-site personnel are wearing masks and practicing social distancing while working.

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the City and the Wastewater System is unknown. The City reports that Fiscal Year 2020 and 2021 Wastewater System revenues and expenses were not materially affected by the COVID-19 outbreak. The City's customer base is primarily residential and its wastewater rate structure consists of variable and fixed rate components, which partially mitigates the effect of any reduced wastewater service use by non-residential customers. See the captions "THE WASTEWATER SYSTEM—Historical Wastewater System Connections" and "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges." To date, the City has not experienced and does not at this time foresee a future negative impact on Wastewater System operations as a result of the COVID-19 outbreak.

The projected Wastewater System operating results which are set forth under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" include the following assumptions based on the trends that the City has seen since the beginning of the outbreak: (i) projected water sales for Fiscal Year 2022 are assumed to remain Fiscal Year 2019 levels (prior to the onset of the pandemic) to account for decreased commercial water usage since the implementation of stay-at-home orders; and (ii) Wastewater System revenues for Fiscal Year 2021 were assumed to be reduced by approximately \$135,000 to account for increased delinquencies and write-offs. The City does not expect to write off (and has not budgeted for the writeoff of) material amounts in Fiscal Year 2022 as a result of the suspension of water service shutoffs through December 31, 2021.

The City continues to actively monitor Wastewater System usage, payment delinquencies, revenues and expenditures so that any further impacts of the COVID-19 pandemic can be anticipated. However, the City has not experienced and does not at this time foresee a future negative financial impact on Wastewater System operations as a result of the COVID-19 outbreak, nor does the City expect that the outbreak will have a material adverse effect on the City's ability to repay the 2021 Bonds.

## THE WASTEWATER SYSTEM

### General

The City provides wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021. The Wastewater System service area covers approximately 34 square miles and includes approximately 90% of the geographic area of the City and one small subdivision located outside of City limits. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 367 miles of sewer pipelines and 11 pumping stations.

The HARRF is the City's principal wastewater treatment facility. The HARRF is a standard activated sludge treatment plant with a rated capacity of 18 MGD, of which 12.7 MGD is owned by the City. See the captions "—Hale Avenue Resource Recovery Facility" and "—Sewage Disposal Agreement."

The HARRF also includes facilities for the tertiary treatment of wastewater, which allows the City to distribute up to 9 MGD of recycled water from treated wastewater at the HARRF for various City landscape irrigation customers, including golf courses, school fields, City parks and green belts. Recycled water deliveries offset higher cost purchases of imported potable water and represent an additional reliable source of local water supply.

Revenues from both the City's wastewater service and recycled water sales are pledged to repayment of the 2021 Bonds.

### Hale Avenue Resource Recovery Facility

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

Treatment at the HARRF consists of physical, biological and chemical methods, which include screening, sedimentation, chemical precipitation and biological processes. 12.7 MGD of the HARRF's capacity is owned by the City and 5.0 MGD, with an option for an additional 0.3 MGD, of the total capacity is currently owned by the City of San Diego and serves the Rancho Bernardo community south of the City. See the caption "—Sewage Disposal Agreement."

The Wastewater System's average daily flow was approximately 10.3 MGD in Fiscal Year 2021, and Rancho Bernardo contributed approximately another 2.3 MGD, for a total HARRF average daily flow of approximately 12.6 MGD in Fiscal Year 2021. Peak wet weather records indicate that the maximum daily throughput was 27.3 MGD.

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

Wastewater is treated in several stages. In the pre-treatment stage, raw wastewater is routed through a screening process, which removes large inorganic material, and a grit removal process, which removes small inorganic material. Such material is washed, disinfected and disposed of in landfills. After pre-treatment, the influent enters the primary clarifiers where gravity is used to settle solids to produce primary effluent. The solids are pumped to the primary digesters where they are broken down by anaerobic organisms. The primary effluent then enters the secondary treatment stage. The secondary system consists of conventional activated

sludge aeration and clarification. Primary effluent is oxidized and consumed by a cultivated aerobic bio-mass and forms “mixed liquor.” The mixed liquor (liquid in the aeration tanks) flows into the secondary clarifiers where gravity is used to separate the water (secondary effluent) from the biosolids. Secondary effluent is then pumped through the outfall described in the following paragraph for ultimate disposal. Excess secondary biosolids are pumped to the digesters, where they are mixed with primary sludge and treated for a minimum of 15 days. The volatile (organic content) mass of the combined biosolids are reduced to a stable state and transferred to the centrifuges for dewatering. The concentrated biosolids are disposed of via land application offsite and the water is returned to the HARRF. A portion of secondary effluent is sent to the tertiary treatment process where filters further remove remaining particles. Flow is then disinfected with chlorine application or ultraviolet light to produce recycled water that meets the standards set forth in Chapter 3 of Division 4 of Title 22 of the California Code of Regulations (“**Title 22 Recycled Water**”). See the caption “—Recycled Water System.”

The HARRF’s effluent is discharged to the Pacific Ocean via a 14 mile long land pipeline that connects to the San Elijo Ocean Outfall, an 8,000 foot ocean pipeline near the San Elijo Lagoon in north San Diego County. The effluent exits the outfall pipeline approximately 1.5 miles offshore through diffuser ports 110 feet deep in the Pacific Ocean. The San Elijo Joint Powers Authority operates the San Elijo Ocean Outfall and the San Elijo Pollution Control Facility. The San Elijo Ocean Outfall is jointly owned by the City and San Elijo Joint Powers Authority and the City owns 79% of the 25.5 MGD of ocean outfall capacity pursuant to an agreement with the San Elijo Joint Powers Authority that continues indefinitely unless terminated by either party upon 2 years written notice. A pressure regulating station is located at the lower end of the Escondido Land Outfall to control flow so that the total flow does not cause the pressure to exceed the pressure limitation of the reinforced concrete pipe portion of the San Elijo Ocean Outfall. The City sends its dewatered solids to Yuma, Arizona for use as a soil amendment.

### **Sewage Disposal Agreement**

As discussed under the caption “—Hale Avenue Resource Recovery Facility,” 5.0 MGD (with an option for an additional 0.3 MGD) of the total capacity of the HARRF is currently owned by the City of San Diego and serves the Rancho Bernardo community south of the City. The City does not bill Wastewater System users located in the City of San Diego directly. Pursuant to the terms of a Sewage Disposal Agreement dated April 12, 1972, by and between the City and the City of San Diego (as amended, the “**Sewage Disposal Agreement**”), the City of San Diego is obligated to pay the City in each Fiscal Year an amount equal to the City of San Diego’s pro rata share (based on wastewater flows) of the total Operation and Maintenance Costs and certain capital costs of those Wastewater System facilities which are utilized by the City of San Diego. Prior to each Fiscal Year the City is required to estimate and notify the City of San Diego of its share of such Operation and Maintenance Costs and capital costs and the City of San Diego is obligated to pay such amounts in quarterly installments, billed in arrears. The first quarterly installment each Fiscal Year is adjusted either upward or downward to reflect the actual expenses and flows for the previous Fiscal Year. The City treats the moneys received from the City of San Diego as Revenues pledged to payment of the 2021 Bonds. See the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Historical Operating Results and Debt Service Coverage.”

In Fiscal Year 2020, the last year for which the City’s full annual billing of the City of San Diego has been received, the City received a total of \$2,499,874 from the City of San Diego (or 6.60% of total Revenues), and for Fiscal Year 2021, the latest year for which such information is available, the City budgeted the City of San Diego’s share of Operation and Maintenance Costs to be \$2,800,000. In the event that service to the City of San Diego is interrupted, the City of San Diego may discontinue its payments for the period of such interruption.

The Sewage Disposal Agreement expires in 2023 and may be extended for additional five year terms at the City of San Diego’s option. There can be no assurance that the term of the Sewage Disposal Agreement will be extended after 2023 or that any such extension will include similar provisions, and the likely impact of

such an extension on Net Revenues is uncertain at this time. The projected operating results that are set forth under the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” assume that the term of the Sewage Disposal Agreement will be extended after 2023, as the City of San Diego does not currently have an alternative means of treating wastewater generated in the Rancho Bernardo community. See the caption “CERTAIN RISKS TO BONDHOLDERS—System Demand.”

### **Environmental Compliance**

The present discharge requirements for the HARRF’s treatment facilities are established by the Regional Water Quality Control Board, San Diego Region (the “**Regional Board**”), which administers and enforces all federal and State discharge requirements. The Regional Board administers regulations promulgated under the National Pollutant Discharge Elimination System (“**NPDES**”) by the United States Environmental Protection Agency and Division 7 of the California Water Code and regulations adopted thereunder. The City presently holds two discharge permits – Waste Discharge Order No. R9-2010-0032, which governs the discharge of reclaimed water, and Waste Discharge Order No. R9-2018-0002, which governs the discharge of secondary treated effluent. The City’s Waste Discharge Orders were adopted by the Regional Board on July 14, 2010 and September 8, 2010, respectively. Waste Discharge Order No. R9-2010-0032 has no expiration date and Waste Discharge Order No. R9-2018-0002 expires on May 31, 2023. The City is operating in compliance with the terms of the Waste Discharge Orders.

The City previously held an NPDES permit to provide for a discharge of brine from the power generating facility that is described under the caption “—Largest Wastewater System Customers—Power Generating Facility” directly to the Escondido Land Outfall. The Regional Board has transferred responsibility for this permit to San Diego Gas & Electric (“**SDGE**”), which owns and operates the power generating facility. The permit allows SDGE to discharge to the City’s brine system and defines the water quality requirements for such discharge. The brine flows to the HARRF, where it may be temporarily stored before discharge into the secondary effluent outfall. See the caption “—Hale Avenue Resource Recovery Facility.”

During heavy rains in 1995 and 1996, the capacity of the San Elijo Ocean Outfall was exceeded. To avoid damage to the pipeline, treated secondary effluent was pumped to Escondido Creek during the storms. The Regional Board issued a cease and desist order with respect to pumping to Escondido Creek, although fines were not imposed. The cease and desist order permitted the City to continue operating the HARRF so long as a remedial plan was adopted by May 1998 and placed into operation by 2002. The City embarked on an ambitious plan for improvements to the HARRF, including adding a tertiary treatment stage to the plant process and upgrading the secondary treatment processes by, among other things, installing sophisticated electronic controls, all as described above. Escondido Creek was also improved to provide flood protection at the HARRF and capacity for discharge of recycled water.

The City was issued NPDES permit Number R9-2003-0394 for Intermittent Wet Weather Discharge to Escondido Creek on December 10, 2003, which allowed the City to discharge stormwater overflows treated in the HARRF secondary treatment facility to Escondido Creek in accordance with the terms thereof. The Intermittent Wet Weather Discharge permit effectively canceled the cease and desist order described in the preceding paragraph. The Intermittent Wet Weather Discharge Permit was replaced by NPDES permit R9-2015-0026 effective August 1, 2015. NPDES permit R9-2015-0026 has also since expired (on July 31, 2020) with the City’s application for renewal still pending. Although the City is able to discharge stormwater overflows under the expired permit, the City anticipates that the completion of a membrane filtration reverse osmosis facility (as discussed under the caption “—Recycled Water System”) in or about 2023 will make it unnecessary for the permit to be renewed. The City is in discussions with Regional Board with respect to this matter, but it does not expect the abandonment of the permit renewal application to have a material adverse effect on the operation or finances of the Wastewater System or the City’s ability to pay debt service on the 2021 Bonds when due.

On May 2, 2006, the SWRCB issued General Waste Discharge Requirements for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (the “**General Order**”). The General Order requires public agencies that own sanitary sewer systems comprised of more than one mile of pipes or sewer lines to develop sanitary sewer management plans and report all sanitary sewer overflows. The City is currently enrolled under the General Order and has a certified sanitary sewer management plan.

### **Recycled Water System**

The San Elijo Joint Powers Authority does not expect to be able to increase the capacity of the San Elijo Ocean Outfall (as discussed under the caption “—General”) or to construct an additional outfall in the foreseeable future because of the significant costs and environmental constraints placed upon ocean outfall pipelines. For this reason, the City anticipates that it will need to produce increasing amounts of Title 22 Recycled Water through the wastewater treatment process that is described under the caption “—Hale Avenue Resource Recovery Facility” in order to accommodate future growth within the Wastewater System’s service area. The City expects to be able to meet these production requirements and produce larger amounts of recycled water each year as the projects that are described in the following paragraphs are completed and put into service. See the caption “—Projected Recycled Water Sales.”

In 2004, the City commenced distribution of recycled water produced at the HARRF. Currently, approximately 2.39 MGD is provided to the recycled water users. The HARRF’s recycled water system is permitted to produce up to 9 MGD of recycled water from the HARRF for various City landscape irrigation customers, including golf courses, school fields, City parks, green belts and agricultural customers. In Fiscal Year 2021, the HARRF delivered 2,753 acre feet of recycled water to 23 customers. Of the HARRF’s 18 MGD capacity, 9 MGD is designed for the production of recycled water. Recycled water deliveries offset higher cost purchases of imported potable water and represent an additional reliable source of local water supply. Improvements to the HARRF since its inception include upgrades that allow manufacture of “tertiary treated water” for unrestricted irrigation use, 18 miles of new distribution system pipelines and the construction of a two million gallon reservoir.

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

- Recycled Water Main Easterly Extension – This project consists of a 24” recycled water main along Escondido Creek between the crossings of Broadway and Citrus Avenue. It represents an expansion of the recycled water system to serve additional large agricultural customers. This project is complete and was financed from proceeds of the 2012 Installment Purchase Agreement.
- Recycled Water Main and Tanks – This project consists of the installation of a 24” recycled water main from Citrus Avenue and Escondido Creek Channel to the Hogback Tank, the conversion of Hogback Tank from potable to recycled water and the construction of a new potable water storage tank. It extended the Recycled Water Main Easterly Extension to serve additional large agricultural customers. This project is complete and was financed from proceeds of the 2012 Installment Purchase Agreement and an agreement with the SWRCB, as discussed under the caption “THE CITY—Outstanding Parity Obligations—Recycled Water Easterly Main and Tanks Project Loan.”
- Recycled Water Easterly Agricultural Distribution System – This project consists of the construction of a 2.2 mile long, 8” to 20” diameter recycled water distribution pipeline to serve agricultural customers of the City. This project is currently under construction and is being financed from proceeds of an agreement with the SWRCB, as discussed under the caption “THE CITY—Outstanding Parity Obligations—Recycled Water Easterly Agriculture Distribution System Loan.” The project is expected to be completed in or about late 2022.
- Membrane Filtration/Reverse Osmosis Facility – This project consists of the construction of a membrane filtration reverse osmosis facility. It will increase the City’s capacity to produce Title 22 Recycled

Water and enable the City to avoid discharges of stormwater overflows into Escondido Creek upon its expected completion in 2023. See the caption “—Environmental Compliance.” This project is currently under construction and is being financed from proceeds of an agreement with the SWRCB, as discussed under the caption “THE CITY—Outstanding Parity Obligations—MFRO Facility Loan.” The project is expected to be completed in or about mid-2023.

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

### Historical Wastewater System Connections

The following table shows historical billed connections to the Wastewater System for the five most recent Fiscal Years. As described under the caption “—General,” the majority of the City’s accounts are residential, with the City providing wastewater service to approximately 24,554 single family residential, 21,646 multifamily residential, 2,618 business and 5 agricultural connections as of June 30, 2021.

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

<i>Fiscal Year</i>	<i>Wastewater</i>	<i>Recycled Water</i>	<i>% Increase/(Decrease)<sup>(1)</sup></i>
2017	47,466	36	N/A%
2018	48,092	36	1.32
2019	48,466	35	0.78
2020	48,695	36	0.47
2021	48,823	36	0.26

<sup>(1)</sup> Represents the percentage change in total wastewater and recycled water connections.  
Source: City.

### Historical Wastewater System Usage

The following table shows the historical volume of wastewater treated by the Wastewater System for the five most recent Fiscal Years, including wastewater that is attributable to the Rancho Bernardo community in the City of San Diego. See the caption “—Sewage Disposal Agreement.”

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

<i>Fiscal Year</i>	<i>Daily Average Flow (MGD)</i>	<i>% Increase/(Decrease)</i>
2017	12.6	N/A%
2018	12.3	(2.38)
2019	13.4	8.94
2020	13.9	3.73
2021	12.6	(9.35) <sup>(1)</sup>

<sup>(1)</sup> Decrease from Fiscal Year 2020 reflects unusually wet conditions in winter 2019-20 followed by unusually dry conditions in winter 2020-21, as well as efforts by the City to reduce inflow and infiltration into the Wastewater System.  
Source: City.

Wastewater System usage is affected by a number of factors, including but not limited to the number of connections to the Wastewater System and water conservation efforts.

### Historical Recycled Water Sales

The following table shows the historical volume of recycled water sales for the five most recent Fiscal Years. The Wastewater System’s largest recycled water customer, accounting for an average of approximately 81% of recycled water sales (based on acre feet sold) for the Fiscal Years shown in the table below, is Rincon Del Diablo Municipal Water District (“**Rincon MWD**”). See the caption “—Largest Customers—Power Generating Facility” for a description of the City’s recycled water sales agreement with Rincon MWD and SDGE. In the Fiscal Years shown in the table below, the City sold an average of approximately 2,224 acre feet of recycled water per year to Rincon MWD and an average of approximately 508 acre feet of recycled water per year to other customers.

**TABLE 3**  
**CITY OF ESCONDIDO WASTEWATER SYSTEM**  
**Historical Recycled Water Sales**

<i>Fiscal Year</i>	<i>Recycled Water Sales (Acre Feet)</i>	<i>% Increase/(Decrease)</i>
2017	3,121	N/A%
2018	3,316	6.25
2019	2,270	(31.54) <sup>(1)</sup>
2020	2,201	(3.04)
2021	2,753	25.08

<sup>(1)</sup> Decrease in Fiscal Year 2019 reflects more rain in winter 2019 compared to winter 2018. As shown in the “Recycled Water Revenues” column of Table 4 below, despite the reduction in recycled water sales, recycled water revenues increased in Fiscal Year 2019 as a result of a rate increase.

Source: City.

Recycled water sales are affected by a number of factors, including but not limited to the amount of winter precipitation received.

### Historical Wastewater System Service Charge Revenues

The following table shows historical service charge revenues of the Wastewater System for the five most recent Fiscal Years. As further described under the caption “—Largest Customers—Power Generating Facility,” approximately 77% of recycled water sales revenues for Fiscal Year 2021 (based on unaudited actual results to date) was from sales to Rincon MWD, the Wastewater System’s largest recycled water customer.

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

<i>Fiscal Year</i>	<i>Wastewater Service Charge Revenues</i>	<i>Recycled Water Revenues</i>	<i>Total</i>	<i>% Increase/(Decrease)</i>
2017	\$30,391,537	\$3,775,065	\$34,166,602	N/A%
2018	31,232,433	3,231,643	34,464,076	0.87
2019	32,490,336	3,290,218	35,780,554	3.82
2020	32,251,130	3,249,679	35,500,809	(0.78)
2021 <sup>(1)</sup>	32,932,900	3,641,378	36,574,278	3.02

<sup>(1)</sup> Reflects unaudited actual Fiscal Year 2021 results based on available information to date.

Source: City.

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

### Largest Wastewater System Customers

*General.* The following table sets forth the ten largest wastewater service customers of the Wastewater System as of June 30, 2021, as determined by the amount of their respective payments.

**TABLE 5**  
**CITY OF ESCONDIDO WASTEWATER SYSTEM**  
**Largest Wastewater Service Customers**

<i>Customer Type</i>	<i>Wastewater Service Charge Revenues<sup>(1)</sup></i>	<i>% of Total</i>
1. Multifamily Residential	\$ 210,148	0.64%
2. Multifamily Residential	128,302	0.39
3. Multifamily Residential	119,995	0.36
4. Multifamily Residential	117,257	0.36
5. Multifamily Residential	114,963	0.35
6. Multifamily Residential	108,677	0.33
7. Multifamily Residential	108,160	0.33
8. Multifamily Residential	106,245	0.32
9. Multifamily Residential	105,890	0.32
10. Multifamily Residential	<u>94,909</u>	<u>0.29</u>
TOP TEN TOTAL	\$ 1,214,546	3.69%
 TOTAL SYSTEM	 \$32,932,900	 100.00%

<sup>(1)</sup> Reflects unaudited actual Fiscal Year 2021 results based on available information to date.  
Source: City.

These customers accounted for approximately 3.69% of Wastewater System Revenues from wastewater service charges (excluding recycled water sales revenues), based on unaudited actual results, for Fiscal Year 2021 (\$32,932,900).

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

SDGE's use of recycled water supplied by the City (through Rincon MWD) under the Recycled Water Service Agreement accounted for approximately \$2,529,459 in Revenues (equivalent to approximately 6.68% of total Revenues) in Fiscal Year 2020 (the latest year for which complete information is available), consisting of approximately \$1,048,716 in commodity charges, approximately \$801,672 in base capacity charges and approximately \$679,070 in additional capacity charges. Pursuant to the Recycled Water Services Agreement, these rates escalate in connection with rate increases for potable water. See the caption "—Wastewater System Rates and Charges."

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

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

Neither SDGE nor Sempra have participated in the preparation of this Official Statement, and neither SDGE nor Sempra is obligated to pay debt service on the 2021 Bonds or to provide any continuing disclosure with respect to the Recycled Water Service Agreement or otherwise. The Recycled Water Service Agreement is not pledged as security for the 2021 Bonds, and its enforcement is subject to the City's (and Rincon MWD's) performance of its obligations thereunder. Moreover, the Recycled Water Service Agreement may be amended by the parties at any time, and remedies thereunder may be limited by bankruptcy, equitable principles and general limitations on remedies against public agencies or public utilities. The City does not anticipate that SDGE will seek to terminate the Recycled Water Service Agreement in the foreseeable future and the projected operating results that are set forth under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage" assume that the Recycled Water Service Agreement will continue in force. However, there can be no assurance that Revenues from the Recycled Water Service Agreement will equal the amounts that are projected in this Official Statement. See the caption "CERTAIN RISKS TO BONDHOLDERS—System Demand."

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

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

### **Wastewater System Rates and Charges**

**General.** The City has the power to establish rates and charges as needed to operate the Wastewater System. The City's Wastewater System rates are not subject to review or approval by the California Public Utilities Commission or any other agency. However, the City is required to comply with the notice, hearing

and majority protest provisions of Article XIII D of the State Constitution, which is popularly known as Proposition 218. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218” for a discussion of limitations on the rate setting authority of the City under Proposition 218. The City determines the adequacy of the Wastewater System rate structure after full consideration of expected operations, maintenance and capital costs.

In 2017, after a public hearing as required under Proposition 218, the City Council adopted a comprehensive rate plan for the Wastewater System, including Wastewater System rate increases effective on March 1 of each year from 2017 through 2021. The City has retained a consultant that is currently conducting a rate study to assess the need for future Wastewater System rate increases. The study is expected to be concluded in early 2022 and staff expects the City Council to consider Wastewater System rate increases commencing March 1, 2023 at a public hearing to be scheduled in 2022.

The projected operating results which are set forth under the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” assume no Wastewater System rate increases in 2022 and Wastewater System rate increases averaging approximately 1% per annum commencing March 1, 2023 which have not yet been adopted. All rate adjustments are subject to City Council approval after a public hearing in accordance with Proposition 218 and there can be no assurance that Wastewater System rates will be increased as projected herein. In the event that the City Council does not adopt such rate increases as currently contemplated, Wastewater System operating results could be materially different from the projections in this Official Statement.

The City is subject to certain covenants with respect to the 2021 Bonds which require the City to set Wastewater System rates and charges in amounts that it expects to be sufficient to pay the 2021 Bonds from Net Revenues. See the caption “SECURITY FOR THE 2021 BONDS—Rate Covenant.”

**Rates and Charges.** The City adopts rates and charges for the Wastewater System by City Council action. Under the current rate structure, residential users are typically billed both a flat monthly fee and a service charge based on water flow. Water flow is calculated using indoor (non-landscaping) water usage, which is estimated at 80% of the average monthly winter (December to March) water usage per customer for the previous year for single family and multi-family residences, and 100% of water usage for mobile homes. As discussed under the caption “CERTAIN RISKS TO BONDHOLDERS—Drought Declarations,” lower winter water usage by residential users in response to drought conditions could result in reduced residential flows and, consequently, lower wastewater service charge revenues in future Fiscal Years.

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

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

**TABLE 6  
CITY OF ESCONDIDO WASTEWATER SYSTEM  
Wastewater Service Rates and Charges**

<i>Customer Class</i>	<i>Unit</i>	<i>Fixed \$/mo</i>	<i>Other \$/unit</i>	<i>Wastewater Flow \$/ 1,000 gal****</i>	<i>Biochemical Oxygen Demand \$/lb</i>	<i>Total Suspended Solids \$/lb</i>
Single Family Residential*	per unit/month	\$25.90	\$ -	\$ 5.14	\$ -	\$ -
Multi-Family Dwelling*	per dwelling unit/month	25.90	-	4.20	-	-
Mobile Homes***	per mobile home/month	25.90	-	2.58	-	-
High Schools	per student/year	-	35.89	-	-	-
Elementary/Middle Schools	per student/year	-	23.92	-	-	-
Churches	per 100 seats/month	-	49.84	-	-	-
Car Wash/Soft Water Service**	per account/month	25.90	-	7.58	-	-
Hotel/Motel without Dining**	per account/month	25.90	-	9.04	-	-
Hotel/Motel with Dining**	per account/month	25.90	-	13.08	-	-
Repair Shop/Service Station**	per account/month	25.90	-	7.96	-	-
Commercial Laundry**	per account/month	25.90	-	9.22	-	-
Laundromats**	per account/month	25.90	-	8.11	-	-
Hospital**	per account/month	25.90	-	8.71	-	-
Brewery	per account/month	25.90	-	6.90	0.67	0.63
Grocery Store – Meat Dept.**	per account/month	25.90	-	15.24	-	-
Industrial**	per account/month	25.90	-	12.31	-	-
Restaurant**	per account/month	25.90	-	15.04	-	-
All Other Commercial**	per account/month	25.90	-	9.21	-	-
Discharges to Brine Line	per account/month	25.90	-	0.85	-	-

\* Applied to 80% of monthly water usage.

\*\* Applied to 90% of monthly water usage.

\*\*\* Applied to 100% of water usage.

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

Source: City.

**TABLE 7  
CITY OF ESCONDIDO  
Recycled Water Rates and Charges**

<i>Monthly Fixed Rate</i>	
<i>Meter Size</i>	<i>Monthly Charge</i>
1"	\$ 64.69
1.5"	122.71
2"	192.58
3"	414.13
4"	740.17
6"	1,637.19
<i>Commodity Rate</i>	
<i>Service Type</i>	<i>Cost per 1,000 Gallons</i>
Recycled	\$3.85
Agricultural	2.70

Source: City.

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

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

Connection fees generally are treated as Revenues, but the purchase of a connection or the exercise of connection rights may not result in the receipt of corresponding cash by the City when purchased or exercised. For example, if the owner of a pre-sold wastewater connection right exercises its right to connect to the Wastewater System, the City treats the value of the exercised right as revenue in the amount of \$21,872 per right, even though no current cash is received. If instead, a wastewater connection right is purchased, the City applies a portion of the purchase price equivalent to 2.916 new connections to buy back connection rights from owners who have offered them for resale, if any, at the price of \$21,872, and holds the balance for future expansion of the Wastewater System. These credits relieve a liability of the Wastewater System, but they do not result in a current expense, and have no impact on Operation and Maintenance Costs, in the applicable year. Footnotes to the tables under the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION” 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, 2021, 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 \$21,872 per connection right. In Fiscal Year 2021, the City recorded connection right revenue of \$3,395,980 (based on unaudited actual numbers), which amounts constitute Revenues that are pledged to the repayment of the 2021 Bonds, and connection rights holders exercised no rights. See the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Historical Operating Results and Debt Service Coverage.”

**Comparative Wastewater Rates.** The following table compares the City’s current average monthly residential sewer rate (based on usage of 10,000 gallons) to that of other nearby wastewater service providers.

**CITY OF ESCONDIDO WASTEWATER SYSTEM  
Monthly Residential Wastewater Service Charge Comparison**

	<i>Monthly Charge</i>	<i>Volume Charge (per 10,000 gallons)</i>	<i>Total Charge (per 10,000 gallons)</i>
City of Del Mar	\$54.90 <sup>(1)</sup>	\$103.74	\$158.64 <sup>(1)</sup>
Valley Center Municipal Water District	87.30	0.00	87.30
Fallbrook Public Utility District	22.23	107.90	130.13
City of Oceanside	26.84	59.36	86.20
City of San Diego	15.33 <sup>(1)</sup>	48.11	63.44 <sup>(1)</sup>
City of Poway	28.31	46.60	74.91
<b>City of Escondido</b>	<b>25.90</b>	<b>68.72</b>	<b>94.62</b>
Otay Water District	16.55	39.57	56.12
Vallecitos Water District	38.99	0.00	38.99
Carlsbad Municipal Water District	44.28	0.00	44.28

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

**Collection Procedures**

The City consolidates its billing procedures with charges for water, wastewater, recycled water and trash collection. Customers located within the City’s potable water service area are billed monthly. Customers located outside of the City’s potable water service area are billed bi-monthly. Bills are generated by computer monthly. A customer is given 19 days to pay the bill. A 10% late payment charge is assessed against any payment received on or after the nineteenth day following the billing date. Accounts that are over 60 days delinquent are subject to disconnection of wastewater service. After shutoff, a customer has approximately one week to pay the delinquent bill. If not paid, the account is closed and a closing bill is mailed. The delinquent customer has 30 days to pay the closing bill. If not paid by the due date, the bill is transferred to the collection department. Small claims litigation is the ultimate remedy for closed accounts that fail to pay.

Presently, approximately 85% to 90% of all bills are paid within 19 days and almost all delinquencies are paid prior to the disconnection of service, which is in accordance with historical averages prior to the COVID-19 outbreak. Outstanding bills on closed accounts are forwarded to the Collections Officer for collection.

See the caption “THE CITY—COVID-19 Outbreak” for a discussion of the suspension of wastewater service shutoffs through December 31, 2021. The suspension has prevented the City from shutting off delinquent accounts as described above, but no wastewater service charges are being forgiven. The City will also grant extended payment arrangements for customers that apply for such relief. Considering the impacts of the pandemic, the City assumed an allowance for the write-off of uncollectible accounts of \$135,000 in Fiscal Year 2021, or approximately 0.6% of budgeted operating revenues. The City does not expect to write off material amounts in Fiscal Year 2022 as a result of the suspension of water service shutoffs through December 31, 2021. The City continues to actively monitor Wastewater System usage, payment delinquencies, revenues and expenditures so that any impacts of the COVID-19 pandemic can be anticipated; however, the City has not experienced and does not at this time foresee a future negative financial impact on Wastewater System operations as a result of the COVID-19 outbreak.

**Future Wastewater System Improvements**

The City projects capital improvements of approximately \$53.8 million over the current and next four Fiscal Years, including expansion of the HARRF’s secondary treatment capacity, the construction of wastewater transmission and recycled water distribution pipelines, the construction of a membrane filtration reverse osmosis facility and other miscellaneous capital improvements.

The City currently projects funding such capital improvements through a combination of grants, agreements that the City has entered into with the SWRCB but not yet drawn upon, agreements with the SWRCB that the City is currently repaying and Revenues remaining after the payment of debt service on agreements with the SWRCB and other existing obligations. See the caption “THE CITY—Outstanding Parity Obligations” for further information with respect to the above-described capital improvements and agreements with the SWRCB to finance certain of such improvements. See the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” for projected debt service on the City’s agreements with the SWRCB.

Many of the above-described capital improvements comprise portions of a larger potable water reuse program that has been conceptually approved by the City Council. The City estimates that the total cost of such program, if fully constructed, would be approximately \$250,000,000 over 15 years, including approximately \$53.8 million that is expected to be expended in the current and next four Fiscal Years. Such costs may be financed through a combination of debt (including additional agreements with the SWRCB), grants, reserves and Revenues remaining after the payment of debt service on existing obligations (which are dependent upon additional rate increases that have not yet been adopted). The timing, scope and financing sources for such capital program are presently uncertain and subject to change. Individual projects within the program are subject to City Council approval and there can be no assurance that any of such improvements will be constructed as currently contemplated.

**Projected Wastewater System Connections**

The following table shows projected billed connections to the Wastewater System for the current and next four Fiscal Years.

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

<i>Fiscal Year</i>	<i>Wastewater</i>	<i>Recycled Water</i>	<i>% Increase/(Decrease)<sup>(1)</sup></i>
2022	49,042	36	0.45%
2023	49,263	45	0.47
2024	49,485	60	0.48
2025	49,707	67	0.46
2026	49,931	70	0.46

<sup>(1)</sup> Represents the percentage change in total wastewater and recycled water connections.  
Source: City.

Projected increases in connections reflect expected development activity within the City.

**Projected Wastewater System Usage**

The following table shows the volume of wastewater that is projected to be treated by the Wastewater System for the current and next four Fiscal Years, including wastewater that is attributable to the Rancho Bernardo community in the City of San Diego. See the caption “—Sewage Disposal Agreement.”

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

<i>Fiscal Year</i>	<i>Daily Average Flow (MGD)</i>	<i>% Increase/(Decrease)</i>
2022	12.9	2.38%
2023	12.9	0.00
2024	12.9	0.00
2025	12.9	0.00
2026	12.9	0.00

Source: City.

Wastewater System usage is affected by a number of factors, including but not limited to the number of connections to the Wastewater System and water conservation efforts. The projected wastewater flows shown above do *not* reflect lower residential winter water usage in the winter of 2021-22 or any future years, if any, in response to drought conditions. See the caption “CERTAIN RISKS TO BONDHOLDERS—Drought Declarations.”

**Projected Recycled Water Sales**

The following table shows the projected volume of recycled water sales for the current and next four Fiscal Years.

**TABLE 10**  
**CITY OF ESCONDIDO WASTEWATER SYSTEM**  
**Projected Recycled Water Sales<sup>(1)</sup>**

<i>Fiscal Year</i>	<i>Recycled Water Sales (Acre Feet)</i>	<i>% Increase/(Decrease)</i>
2022	2,500	(9.19)%
2023	3,812	52.48
2024	4,468	17.21
2025	5,124	14.68
2026	5,780	12.80

<sup>(1)</sup> Assumes completion of all projects that are described under the caption “—Recycled Water System.”  
Source: City.

Recycled water sales are affected by a number of factors, including but not limited to the amount of winter precipitation received.

**Projected Wastewater System Service Charge Revenues**

The following table shows projected service charge revenues of the Wastewater System for the current and next four Fiscal Years.

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

<i>Fiscal Year</i>	<i>Wastewater Service Charge Revenues</i>	<i>Recycled Water Revenues</i>	<i>Total</i>	<i>% Increase/ (Decrease)</i>
2022	\$32,985,200	\$3,318,390	\$36,303,590	(0.74)%
2023	33,315,052	4,556,621	37,871,673	4.32
2024	33,648,203	5,794,855	39,443,058	4.15
2025	33,984,685	7,033,089	41,017,774	3.99
2026	34,324,531	8,271,323	42,595,854	3.85

Source: City.

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

As discussed under the caption “—Wastewater System Rates and Charges, the above projections assume no Wastewater System rate increases in 2022 and rate increases of approximately 1% per annum commencing March 1, 2023 which have not yet been adopted. All rate adjustments are subject to City Council approval after a public hearing in accordance with Proposition 218 and there can be no assurance that Wastewater System rates will be increased as projected herein. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.”

**Growth Management**

Pursuant to the City’s current land use policies and ordinances, the City regulates growth by denying building permits to developments that are: (i) inconsistent with the City’s general plan; or (ii) located in areas that have critical infrastructure deficiencies. The City will issue building permits in areas with critical infrastructure deficiencies where the development provides facilities to upgrade existing deficiencies, does not adversely impact critical infrastructure and provides a proportionate share of neighborhood or citywide improvements. The City anticipates that growth and development in the City will continue to be regulated in the future. There can be no assurance that the City will not enact future growth control ordinances which increase limits on population growth in the City. See the caption “—Projected Wastewater System Connections” for projected increases in service connections in the current and next four Fiscal Years. The City has covenanted in the Indenture to fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Wastewater Service which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service (including the 2021 Bonds) in such Fiscal Year. See the caption “SECURITY FOR THE 2021 BONDS—Rate Covenant.”

**WASTEWATER SYSTEM 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 29, 2020 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 unaudited results for Fiscal Year 2021 (based

on available information to date), 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 Wastewater 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 Wastewater Enterprise Fund, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

#### **Available Cash**

As of June 30, 2021, the Wastewater System had approximately \$38.2 million in available cash reserves, including approximately \$18.9 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 508 days of Operation and Maintenance Costs.

#### **General Fund Structural Deficit**

The 2021 Bonds are *not* payable from General Fund revenues, nor are Wastewater System revenues available to cover General Fund deficits. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218.” However, prior to the outbreak of COVID-19, the City’s long-term financial plan projected a \$6 million General Fund operating budget deficit in Fiscal Year 2021, with annual General Fund deficits projected to continue until Fiscal Year 2040 if additional revenues are not generated. These structural deficits reflect the fact that projected General Fund revenue growth is not expected to keep pace with projected growth in operational and retirement costs, particularly in the area of public safety, as the City’s police, fire and public works service costs make up approximately 76% of the General Fund budget. Even after implementing cost-saving budget reduction measures, the City relied on a \$4 million one-time redevelopment loan repayment received by the City to balance its Fiscal Year 2021 General Fund budget and anticipates using one-time funds to balance future budgets as necessary. See the caption “THE CITY—Governance and Management—Management Policies—Budgetary and Financial Policy.” In October 2021, the City Council formed a subcommittee to explore means of increasing General Fund revenues, including the possibility of placing a sales tax measure before City voters in November 2022.

At this time, the City does not anticipate an impact on Wastewater System finances as a result of the foregoing matters. The Wastewater Enterprise Fund has not made any interfund loans to the General Fund to cover General Fund deficits, nor does the City anticipate making any such interfund loans in the future.

However, there can be no assurance that the City will be able to raise sufficient General Fund revenues to address the structural deficit in its General Fund in the future. Continued expenditure reductions to achieve a balanced General Fund budget could negatively impact quality of life in the City and, should such conditions continue, eventually affect the ability and willingness of Wastewater System customers to pay for wastewater services, or result in slower growth in Wastewater System connections than is presently projected.

### **Historical Operating Results and Debt Service Coverage**

The following table is a summary of operating results of the Wastewater System for the last five Fiscal Years. These results have been derived from unaudited results for Fiscal Year 2021 (based on available information to date), the Financial Statements and audited financial statements of the City for prior Fiscal Years but exclude certain non-cash items and include certain other adjustments. The table has not been reviewed or audited by the Auditor.

**TABLE 12**  
**CITY OF ESCONDIDO WASTEWATER SYSTEM**  
**Historical Operating Results**  
**Fiscal Year Ended June 30**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021<sup>(9)</sup></u>
REVENUES					
Service charges <sup>(1)</sup>	\$30,391,537	\$31,232,433	\$32,490,336	\$32,251,130	\$32,932,900
Recycled water revenues	3,775,065	3,231,643	3,290,218	3,249,679	3,641,378
Connection fees <sup>(2)</sup>	1,386,408	3,804,361	1,004,415	536,728	3,395,980
Investment Income	56,945	149,920	1,591,516	1,658,507	52,660
Other <sup>(3)</sup>	150,086	138,372	156,648	163,693	120,687
TOTAL REVENUES	<u>\$35,760,041</u>	<u>\$38,556,729</u>	<u>\$38,533,133</u>	<u>\$37,859,737</u>	<u>\$40,143,605</u>
OPERATION AND MAINTENANCE COSTS <sup>(4)</sup>	\$24,693,045	\$23,468,708	\$24,456,383	\$24,712,849	\$27,449,143
NET REVENUES	\$11,066,996	\$15,088,021	\$14,076,750	\$13,146,888	\$12,694,462
DEBT SERVICE					
2012 Installment Purchase Agreement	\$ 1,440,806	\$ 1,440,281	\$ 1,438,781	\$ 1,441,981	\$ 1,444,781
2015A Bonds	1,609,950	1,600,875	1,599,875	1,601,250	1,604,750
2015B Bonds	528,323	529,575	528,514	525,525	526,063
Phase I HARRF State Loan	488,990	488,990	488,990	488,990	488,998
Water Reclamation Project State Loan	987,722	987,723	987,722	987,722	987,722
Tertiary Treatment Facility State Loan	741,130	741,130	741,130	741,130	741,130
Blower State Loan	98,817	98,870	98,817	98,817	98,817
Recycled Water Easterly Main and Tanks Project Loan <sup>(5)</sup>	-	-	-	-	-
Brine Line Transmission Project Loan	-	-	-	-	217,751
Recycled Water Easterly Agriculture Distribution System Loan <sup>(6)</sup>	-	-	-	-	-
TOTAL DEBT SERVICE <sup>(7)</sup>	<u>\$ 5,895,738</u>	<u>\$ 5,887,443</u>	<u>\$ 5,883,829</u>	<u>\$ 5,885,415</u>	<u>\$ 6,110,012</u>
DEBT SERVICE COVERAGE <sup>(7)(8)</sup>	1.88	2.56	2.39	2.23	2.08
NET REVENUES AVAILABLE FOR OTHER PURPOSES	\$ 5,171,258	\$ 9,200,577	\$ 8,192,921	\$ 7,261,473	\$ 6,584,450

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

(2) See the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—Connection Charges” for a discussion of these Revenues; net cash received for the affected years for such connection fees was \$1,364,536, \$3,760,617, \$982,543, \$536,728 and \$3,395,980 (based on unaudited actual results) for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively. The increase in such revenues in Fiscal Years 2018 and 2021 compared to the respective immediately prior years reflects a high level of development.

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

(4) 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 1.92, 2.33, 2.21, 1.97 and 2.71 (based on unaudited actual results) for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively. See the caption “—Employee Benefits—Pension Obligations” for a description of GASB 68.

(5) The City expects to begin repaying this obligation in Fiscal Year 2022.

(6) The City expects to begin repaying this obligation in Fiscal Year 2024.

(7) For purposes of calculating the Debt Service amount for Debt Service coverage purposes in the City’s audited financial statements, miscellaneous bond expenses of \$(111,981), \$(112,051), \$(111,806), \$(111,552) and \$(159,638) were included in the calculation for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively.

(8) If coverage were adjusted to reflect only the cash received for connection fees, as described in Footnote 2, coverage would have been 1.87, 2.56, 2.39, 2.23 and 2.72 (based on unaudited actual results) for Fiscal Years 2017, 2018, 2019, 2020 and 2021, respectively.

(9) Reflects unaudited actual results based on available information to date.

Source: City.

## **Projected Operating Results and Debt Service Coverage**

The projected operating results of the Wastewater for current and next four Fiscal Years are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the City's estimate of projected financial results based on a variety of assumptions, including the assumptions set forth in the footnotes to the chart set forth below, no Wastewater System rate increases in 2022 and assumed rate increases averaging approximately 1% per annum commencing March 1, 2023 which have not yet been adopted, as discussed under the caption "THE WASTEWATER SYSTEM—Wastewater System Rates and Charges—General." 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 WASTEWATER SYSTEM**  
**Projected Operating Results**  
**Fiscal Year Ending June 30**

	<u>2022<sup>(1)</sup></u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
REVENUES					
Service charges <sup>(2)</sup>	\$32,985,200	\$33,315,052	\$33,648,203	\$33,984,685	\$34,324,531
Recycled water revenues <sup>(2)</sup>	3,318,390	4,556,621	5,794,855	7,033,089	8,271,323
Connection fees <sup>(3)</sup>	1,697,990	848,995	636,746	643,114	649,545
Investment Income <sup>(4)</sup>	53,187	53,718	54,256	54,798	55,346
Other <sup>(5)</sup>	121,894	123,113	124,344	125,588	126,843
TOTAL REVENUES	<u>\$38,176,661</u>	<u>\$38,897,499</u>	<u>\$40,258,403</u>	<u>\$41,841,273</u>	<u>\$43,427,589</u>
OPERATION AND MAINTENANCE COSTS <sup>(6)</sup>	\$28,272,617	\$29,120,796	\$29,994,420	\$30,894,252	\$31,821,080
NET REVENUES	\$ 9,904,043	\$ 9,776,703	\$10,263,984	\$10,947,021	\$11,606,509
DEBT SERVICE					
2012 Installment Purchase Agreement <sup>(7)</sup>	\$ 1,437,381	\$ -	\$ -	\$ -	\$ -
2015A Bonds	1,600,375	1,603,000	1,607,250	1,603,125	1,605,500
2015B Bonds	525,250	527,968	524,162	529,313	523,368
Water Reclamation Project State Loan	987,722	987,722	-	-	-
Tertiary Treatment Facility State Loan	741,130	741,130	-	-	-
Blower State Loan	98,817	98,817	98,817	98,817	-
Recycled Water Easterly Main and Tanks Project Loan	238,814	238,814	238,814	238,814	238,814
Brine Line Transmission Project Loan	217,751	217,751	217,751	217,751	217,751
Recycled Water Easterly Agriculture Distribution System Loan <sup>(8)</sup>	-	-	110,428	110,428	110,428
MFRO Facility Loan <sup>(9)</sup>	-	-	1,340,631	1,594,201	1,594,202
2021 Bonds	-	1,030,452	1,111,788	1,119,344	1,115,656
TOTAL DEBT SERVICE	<u>\$ 5,847,240</u>	<u>\$ 5,445,654</u>	<u>\$ 5,249,641</u>	<u>\$ 5,511,793</u>	<u>\$ 5,405,719</u>
DEBT SERVICE COVERAGE	1.69	1.80	1.96	1.99	2.15
NET REVENUES AVAILABLE FOR OTHER PURPOSES	\$ 4,056,803	\$ 4,331,049	\$ 5,014,343	\$ 5,435,228	\$ 6,200,790

(1) Reflects Fiscal Year 2022 adopted budget with certain adjustments. See the caption "THE CITY—Budget Process."

(2) Assumes no rate increases in 2022 and projected rate increases of approximately 1% per annum commencing March 1, 2023 which have not yet been adopted. All rate increases are subject to the notice, hearing and protest provisions of Proposition 218, and there can be no assurance that rate increases which are projected herein will be approved. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218." assumes extension of the term of the Sewage Disposal Agreement with the City of San Diego beyond 2023. See the caption "THE WASTEWATER SYSTEM—Sewage Disposal Agreement." Also assumes that the Recycled Water Service Agreement will continue in force. See the caption "THE WASTEWATER SYSTEM—Largest Wastewater System Customers—Power Generating Facility."

(3) Reflects City projections of development. See the caption "THE WASTEWATER SYSTEM—Projected Wastewater System Connections."

(4) Reflects projected interest earnings of 1% per annum on Wastewater System reserves.

(5) Includes other miscellaneous revenues, including but not limited to rebates, refunds and incentive payments. Projected to increase by approximately 1% per annum.

(6) Projected to increase by approximately 3.5% per annum.

(7) This obligation is being refunded from proceeds of the 2021 Bonds. See the caption "PLAN OF FINANCE—The Refunding Plan."

(8) The City expects to begin repaying this obligation in Fiscal Year 2024. Assumes repayment of \$2,690,000 in principal amount. The actual amount to be repaid will be determined upon final cost reconciliation of the project being financed. See the caption "THE CITY—Outstanding Parity Obligations—Recycled Water Easterly Agriculture Distribution System Loan."

(9) The City expects to begin repaying this obligation in Fiscal Year 2024. Assumes repayment of \$41,610,000 in principal amount. The actual amount to be repaid will be determined upon final cost reconciliation of the project being financed. See the caption "THE CITY—Outstanding Parity Obligations—MFRO Facility Loan."

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 Statement No. 68 (“GASB 68”). 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 that serve the Wastewater System. The City’s pension plan is administered by CalPERS. CalPERS administers agent multiple-employer public employee defined benefit pension plans 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 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% <sup>(1)</sup>	7.0% <sup>(1)</sup>	6.25% <sup>(1)</sup>
Employer Normal Cost Rate	11.04% <sup>(2)</sup>	11.04% <sup>(2)</sup>	11.04%

<sup>(1)</sup> Employees are required to make the full employee contribution themselves. The City does not make any portion of the employee contribution.

<sup>(2)</sup> Effective July 1, 2020, all M&O Unit employees hired before January 1, 2013 participate in cost sharing of 3% of the employer normal cost rate pursuant to the memorandum of understanding with the M&O Unit dated May 16, 2018. See the caption “THE CITY—Employees.”

Source: City.

Contributions to the City’s pension plan consist of contributions from plan participants (i.e., employees) and contributions by the City.

City employees who were hired on or after January 1, 2013 and who were not previously CalPERS members receive benefits based on 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 for such employees. 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 capped pensionable income 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 2021 (AB 340 and Non-AB 340 Employees)**

	<i>Employees Hired On or Before December 31, 2012 (Non-AB 340 Employees)</i>	<i>Employees Hired After December 31, 2012 (AB 340 Employees)</i>
Maximum Pensionable Income	\$290,000	\$153,671
Maximum Pensionable Income if also Participating in Social Security	N/A	\$128,059

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Source: City.

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. 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: (i) the plan’s employer normal cost rate, which funds pension benefits for current employees for the upcoming Fiscal Year (expressed as a percentage of payroll); plus (ii) the employer unfunded accrued liability contribution amount, which funds pension benefits that were previously earned by current and former employees (billed monthly).

For Fiscal Year 2021, required employer normal cost rates as a percentage of payroll were 11.499% for Miscellaneous Plan employees. For Fiscal Year 2022, required employer normal cost rates as a percentage of payroll are 11.04% for Miscellaneous Plan employees.

For Fiscal Year 2021, the total required employer payment of the unfunded accrued liability for the City’s Miscellaneous Plan was \$11,687,801. For Fiscal Year 2022, the total required employer payment of the unfunded accrued liability for the City’s Miscellaneous Plan is \$13,503,578 (assuming the City elects the lump sum payment option). An 18.6% portion of such amount is expected to be allocable to the Wastewater System, which is roughly equivalent to the allocable amount for prior Fiscal Years.

Beginning in Fiscal Year 2018, CalPERS began collecting employer contributions toward a pension plan’s unfunded liability as dollar amounts instead of the prior method of a percentage of payroll. According to CalPERS, this change was intended to address potential funding issues that could arise from a declining payroll or a reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to underfunding of pension plans. Due to stakeholder feedback regarding internal needs for total contributions expressed as an estimated percentage of payroll, the CalPERS reports include such results in the contribution projection for informational purposes only. Contributions toward a pension plan’s unfunded liability will continue to be collected as set dollar amounts.

The City’s required contributions to CalPERS fluctuate each year and, as noted, include a normal cost component and a component that is equal to an amortized amount of the unfunded liability. Many assumptions

are used to estimate the ultimate liability of pensions and the contributions that will be required to meet those obligations. The CalPERS Board of Administration has adjusted and may in the future further adjust certain assumptions used in the CalPERS actuarial valuations, which adjustments may increase the City's required contributions to CalPERS in future years. Accordingly, the City cannot provide any assurances that the City's required contributions to CalPERS in future years will not significantly increase (or otherwise vary) from any past or current projected levels of contributions. CalPERS earnings reports for Fiscal Years 2010 through 2020 report investment gains of approximately 13.3%, 21.7%, 0.1%, 13.2%, 18.4%, 2.4%, 0.6%, 11.2%, 8.6%, 6.7% and 4.7%, respectively. Preliminary returns for Fiscal Year 2021 indicate an investment gain of 21.3%. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City. The City notes that CalPERS' earnings in Fiscal Year 2020 were below its investment targets as a result of stock market declines in the wake of the COVID-19 outbreak, which could increase future contribution rates for plan participants, including the City. See the caption "THE CITY—COVID-19 Outbreak."

On December 21, 2016, the CalPERS Board of Administration voted to lower its discount rate from 7.50% to 7.00% over a three period. For public agencies such as the City, the new discount rate took effect July 1, 2017. Lowering the discount rate means that employers which 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 retirement plans such as the City's plans. Additionally, many employers will see a 30% to 40% increase in their current unfunded accrued liability payments (relative to the unfunded accrued liability payments projected in the June 30, 2015 valuation report) for pension plans. These payments are made to amortize unfunded liabilities over 20 years to bring pension funds to a fully funded status over the long-term.

The announcement on July 12, 2021 that CalPERS achieved a preliminary investment return of 21.3% for Fiscal Year 2021 could cause the CalPERS Board of Administration to lower CalPERS' discount rate from 7.00% to 6.80% in accordance with a risk mitigation policy that was adopted in 2015, which calls for the discount rate to be lowered if returns exceed the then-current discount rate by two or more percentage points. There can be no assurance as to whether or when the CalPERS Board of Administration will consider lowering the discount rate.

*Portions of the above disclosures 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](http://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.*

The City's Miscellaneous Plan had a total net pension liability of approximately \$141,770,992 for Fiscal Year 2020 (as of the measurement date of June 30, 2019), of which approximately 17% is attributable to the Wastewater System. 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 Year 2020, the City incurred Miscellaneous Plan pension expenses of \$14,696,078.

A summary of principal assumptions and methods used to determine the total pension liability for Fiscal Year 2020 is shown below.

**CITY OF ESCONDIDO**  
**Actuarial Assumptions for CalPERS Miscellaneous 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 2.50%
Mortality Rate Table <sup>(1)</sup>	Derived using CalPERS' membership data for all funds

<sup>(1)</sup> The mortality table used was developed based on CalPERS-specific data from a 2017 actuarial experience study for the period from 1997-2011.  
Source: City.

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

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

	<i>Increase / (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability / (Asset)</i>
Balance at June 30, 2019	\$ 443,306,473	\$ 308,282,714	\$135,023,759
Balance at June 30, 2020	<u>459,862,821</u>	<u>318,091,829</u>	<u>141,770,992</u>
Net Changes for period from July 1, 2019 through June 30, 2020	\$ 16,556,342	\$ 9,809,115	\$ 6,747,233

Source: City.

The table below presents the net pension liability of the City's pension plans, calculated using the discount rate applicable to Fiscal Year 2020 (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 Fiscal Year 2019-20 rate:

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

<i>Plan's Net Pension Liability/(Asset)</i>	<i>Discount Rate – 1% (6.15%)</i>	<i>Applicable Discount Rate (7.15%)</i>	<i>Discount Rate + 1% (8.15%)</i>
Miscellaneous Plan	\$199,138,603	\$141,770,992	\$93,999,588

Source: City.

For additional information relating to the City's pension plans, see Note 12 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 Wastewater Service do not exceed the costs that it reasonably bears in providing such service and therefore are not subject to the limits of Article XIII B. See the caption “SECURITY FOR THE 2021 BONDS—Rate Covenant” for a description of the City’s covenant to set rates and charges for the Wastewater 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 XIII D.* Article XIII D defines the terms “fee” and “charge” to mean “any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service.” A “property-related service” is defined as “a public service having a direct relationship to property ownership.” Article XIII D further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

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

In addition, Article XIID 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 XIID 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 State Supreme Court specifically disapproved the holding in *Howard Jarvis Taxpayers Association v. City of Los Angeles* that metered water rates are not subject to Proposition 218. The City has complied with the notice and public hearing requirements of Article XIID in determining whether to change Wastewater System rates and charges since at least 2000.

**Article XIIC.** Article XIIC provides that the initiative power may not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges is applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the State Supreme Court held in the *Bighorn Case* that the provisions of Article XIIC 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 August 3, 2020, the State Supreme Court issued an opinion in *Wilde v. City of Dunsmuir* (Cal. S. Ct. S252915) holding that taxpayers do not have the right under Proposition 218 to challenge water rates by referendum, and the City does not believe that Article XIIC grants to the voters within the City the power (whether by initiative under Article XIIC or otherwise, or by referendum, which is not authorized under Article XIIC) to repeal or reduce rates and charges for the Wastewater 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 Wastewater System. However, there can be no assurance as to the availability of particular remedies adequate to protect the Beneficial Owners of the 2021 Bonds. Remedies that are available to Beneficial Owners of the 2021 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 2021 Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered owner of the 2021 Bonds and the rights and remedies of the 2021 Bond Owners will be exercised through the procedures of DTC.

## **Proposition 26**

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

## **Future Initiatives**

Articles XIII B, XIII C and XIII D and Proposition 26 were adopted as measures that qualified for the ballot pursuant to 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 2021 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 2021 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 2021 Bonds.*

## **Limited Obligations**

The obligation of the City to pay the 2021 Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Revenues. The obligation of the City to pay the 2021 Bonds does not constitute an obligation for which the general credit or taxing power of the City is pledged.

## **Accuracy of Assumptions**

To estimate the revenues that will be available to pay debt service on the 2021 Bonds, the City has made certain assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with operating the Wastewater System and the interest rate at which funds will be invested. The City believes these assumptions to be reasonable, but to the extent that any of these assumptions fail to

materialize, the Net Revenues available to pay debt service on the 2021 Bonds will, in all likelihood, be less than those projected herein. See the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage.” The City may choose, however, to maintain compliance with the rate covenant that is set forth in the Indenture in part by means of contributions from other available reserves or resources. In such event, Net Revenues may generate amounts which are less than 115% of Debt Service in any given Fiscal Year. See the caption “SECURITY FOR THE 2021 BONDS—Rate Covenant.”

### **System Demand**

There can be no assurance that the demand for wastewater or recycled water services will occur as described in this Official Statement. Reductions in demand could require an increase in rates or charges in order to comply with the rate covenant. Demand for wastewater or recycled water services could be reduced as a result of hydrological conditions, conservation efforts (including in response to drought), an economic downturn (including as a result of the COVID-19 outbreak that is discussed under the caption “THE CITY—COVID-19 Outbreak”) or other factors. See the captions “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges” and “CERTAIN RISKS TO BONDHOLDERS—Accuracy of Assumptions.”

The City treats wastewater from the Rancho Bernardo community within the City of San Diego pursuant to the Sewage Disposal Agreement, which expires in 2023. See the caption “THE WASTEWATER SYSTEM—Sewage Disposal Agreement.” Revenues from the treatment of wastewater generated in Rancho Bernardo accounted for approximately 6.60% of total Wastewater System Revenues in Fiscal Year 2020 (the latest Fiscal Year for which complete information is available). In the event that the Sewage Disposal Agreement is not extended, Revenues from wastewater service would be significantly reduced. The City anticipates that the Sewage Disposal Agreement will be extended given that the City of San Diego does not currently have an alternate means of treating wastewater generated in Rancho Bernardo.

In addition, the City’s largest Wastewater System customer, Rincon MWD, which sells recycled water purchased from the City to SDGE, accounted for approximately 6.68% of total Wastewater System Revenues and approximately 77.84% of recycled water sales revenues in Fiscal Year 2020 (the latest Fiscal Year for which complete information is available). In the event that the Recycled Water Service Agreement pursuant to which SDGE purchases recycled water is terminated, recycled water deliveries would be significantly reduced. The City does not anticipate that SDGE will seek to terminate the Recycled Water Service Agreement in the foreseeable future.

The projected operating results that are set forth under the caption “WASTEWATER SYSTEM FINANCIAL INFORMATION—Projected Operating Results and Debt Service Coverage” assume that the Sewage Disposal Agreement will be extended after 2023 and that the Recycled Water Service Agreement will continue in force. However, in the event that either agreement is not extended or is terminated, as applicable, Wastewater System Revenues could be significantly lower than projected herein.

### **System Expenses**

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 labor costs (including costs related to pension liabilities and the costs of retaining qualified personnel with the proper certifications to operate Wastewater System treatment and other facilities), treatment costs, energy costs, regulatory compliance costs, increased costs to access groundwater due to land subsidence or falling water tables, increased imported water purchase costs and other factors. Increases in expenses could require an increase in rates or charges in order to comply with the rate covenant. See the caption “SECURITY FOR THE 2021 BONDS—Rate Covenant.” Rate increases are subject to the provisions of Proposition 218 and there can be no assurance that the City will be able to increase rates as needed to address increases in Wastewater System expenses. See the caption “—Rate-Setting Process under Proposition 218.”

### **Limited Recourse on Default**

If the City defaults on its obligation to pay the principal of and interest on the 2021 Bonds, the Trustee has the right to declare the total unpaid principal of the 2021 Bonds, together with the accrued interest thereon to be immediately due and payable. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient funds to pay the accelerated amounts due on the 2021 Bonds from Net Revenues.

### **Rate-Setting Process under Proposition 218**

Proposition 218, which added Articles XIII C and XIII D to the State Constitution, affects the City's ability to maintain existing rates and impose rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net Revenues in the amounts required by the Indenture to pay the 2021 Bonds. The City believes that its current Wastewater System rates approved by the City Council were effected in compliance with the notice, 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 the treatment and disposal of wastewater are enacted and promulgated by federal, State and local government agencies. Compliance with these laws and regulations is and will continue to be costly, and, as more stringent standards are developed, such costs will likely increase.

Claims against the Wastewater System for failure to comply with applicable laws and regulations could be significant. Such claims may be payable from assets of the Wastewater System or from other legally available sources. In addition to claims by private parties, changes in the standards for public agency wastewater systems such as that operated by the City may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders could also impose substantial additional costs on the City. No assurance can be given that the cost of compliance with such laws, regulations and orders would not adversely affect the ability of the City to generate Net Revenues sufficient to pay the 2021 Bonds.

### **Natural Disasters**

The occurrence of any natural disaster in the City, including, without limitation, fire, earthquake, landslide, land subsidence, high winds, drought or flood, could have an adverse material impact on the economy within the City, the Wastewater System and the revenues available for the payment of the 2021 Bonds. Portions of the Wastewater System may be at risk of damage or destruction from unpredictable seismic activity. See the caption "THE CITY—Seismic Considerations." The City is not required to maintain earthquake insurance under the Indenture, and does not currently maintain such insurance for the majority of its assets. See the caption "THE CITY—City Insurance."

The occurrence of natural disasters in the City's service area could result in substantial damage to the Wastewater System which, in turn, could substantially reduce revenue generated by the Wastewater System and affect the ability of the City to pay the 2021 Bonds. The City maintains liability insurance for the Wastewater System and property casualty insurance for certain portions of the Wastewater System. However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

Furthermore, as described under the caption "THE CITY—City Insurance," portions of the Wastewater System, including subsurface pipelines, are not covered by property casualty insurance. Damage

to such portions of the Wastewater System as a result of natural disasters would result in uninsured losses to the City.

## **Cybersecurity**

The City relies on computers and technology to conduct its operations. The City and its departments face cyber threats from time to time including, but not limited to, hacking, viruses, malware and other forms of technology attacks. 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, an attack that resulted in the temporary closure of the Port of Los Angeles' largest terminal and an attack on a water treatment facility in Oldsmar, Florida.

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 2022. 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.

## **Limitations on Remedies**

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues in amounts that are sufficient to pay principal of and interest on the 2021 Bonds may be adversely affected by actions and events outside of the control of the City or actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218." Furthermore, the remedies available to the owners of the 2021 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 the event that the City fails to comply with its covenants under the Indenture or fails to pay principal of and interest on the 2021 Bonds, there can be no assurance as to the availability of remedies adequate to protect the interest of the holders of the 2021 Bonds.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State. The opinion to be delivered by Bond Counsel concurrently with the issuance of the 2021 Bonds will be subject to such limitations, and the various other legal opinions to be delivered concurrently with the issuance of the 2021 Bonds will be similarly qualified. See Appendix C.

In addition, usual equity principles may limit the specific enforcement under State law of certain remedies, as may the exercise by the United States of America of the powers delegated to it by the federal Constitution, and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the 2021 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 Wastewater System serves an essential public purpose.

### **Secondary Market**

There can be no guarantee that there will be a secondary market for the 2021 Bonds or, if a secondary market exists, that the 2021 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Parity Obligations**

The Indenture permits the City to enter into additional Contracts and issue additional Bonds which are payable from Net Revenues on a parity with the 2021 Bonds, subject to the terms and conditions set forth therein. The entry into of additional Contracts or the issuance of additional Bonds could result in reduced Net Revenues available to pay the 2021 Bonds. The City has covenanted to maintain Debt Service coverage of 115%, as further described under the caption “SECURITY FOR THE 2021 BONDS—Additional Indebtedness.”

### **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 City is difficult to predict, but it could be significant and it could have a material adverse effect on the Wastewater System’s finances by requiring greater expenditures to counteract the effects of climate change or by changing the business and activities of Wastewater System customers.

The City has developed a Climate Action Plan (the “CAP”) to establish a roadmap by which the City can reduce its greenhouse gas emissions, assist City residents in adapting to the effects of climate change and increase the City’s resilience to the effects of climate change. Under the CAP, the City identifies its sources of and quantifies its levels of greenhouse gas emissions, sets emission reduction targets, implements actions to reduce its emissions and monitors progress toward its targets. With respect to adaption to the effects of climate change, the CAP recognizes that events such as heat waves, flooding and water scarcity are likely to impact historically disadvantaged communities more than others. Accordingly, the CAP seeks to develop relationships with and focus on vulnerable populations when implementing adaptation strategies, including the availability of climate-sustainable housing and a climate-resilient transportation network.

### **Rate Covenant Not a Guarantee**

The 2021 Bonds are payable from Net Revenues of the Wastewater System. See the caption “SECURITY FOR THE 2021 BONDS.” The City’s ability to pay debt service on the 2021 Bonds depends on its ability to generate Net Revenues at the levels required by the Indenture. Although the City has covenanted in the Indenture to impose rates and charges as more particularly described under the caption “SECURITY

FOR THE 2021 BONDS—Rate Covenant,” and although the City expects that sufficient Revenues will be generated through the imposition and collection of such rates and charges, there is no assurance that the imposition and collection of such rates and charges will result in the generation of Net Revenues in amounts that are sufficient to pay the 2021 Bonds. Among other matters, the availability of and demand for water and changes in law and government regulations could adversely affect the amount of Revenues realized by the City.

### **Loss of Tax Exemption**

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the 2021 Bonds, the City has covenanted in the Indenture to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the “**Code**”), and not to take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2021 Bonds under Section 103 of the Code. Interest on the 2021 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such 2021 Bonds as a result of acts or omissions of the City in violation of this or other covenants in the Indenture applicable to the 2021 Bonds. The 2021 Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture. See the caption “TAX MATTERS.”

### **Drought Declarations**

On January 17, 2014, the Governor declared a drought state of emergency (the “**Declaration**”) with immediate effect. The Declaration included an order encouraging local urban water suppliers, including the City, to implement their local water shortage contingency plans. 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 California counties (including the County).

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 the State of California Department of Water Resources and the SWRCB to adopt long-term standards for the following: (i) indoor residential water use; (ii) outdoor residential water use; (iii) commercial, industrial and institutional water use for landscape irrigation; and (iv) water loss. The indoor water use standard has been defined as 55 gallons per person per day (“**GPCD**”) until January 2025; the standard will decrease over time to 50 GPCD in January 2030. Standards for outdoor residential water use and commercial, industrial and institutional water use for landscape irrigation are still being developed. Urban water suppliers will be required to stay within annual water budgets, based on these standards, for their service areas.

Flow in the Wastewater System has been stable subsequent to the passage of Senate Bill 606 and Assembly Bill 1668. Current and projected flows are sufficient to meet the water supply needs of the future membrane filtration reverse osmosis facility (as discussed under the caption “**THE WASTEWATER SYSTEM—Recycled Water System**”) and general recycled water demand. Existing and future water conservation measures are not expected to significantly impact Wastewater System Revenues because mandatory reductions in drinking water consumption primarily affect irrigation customers, which has little impact on wastewater flow.

On October 19, 2021, the Governor declared a Statewide drought state of emergency and requested that all water users voluntarily reduce water use by 15%. The declaration encouraged water agencies to draw upon supplies other than groundwater and to implement their water shortage contingency plans and authorized the SWRCB to adopt regulations that prohibit wasteful water use (such as the use of potable water to wash paved surfaces or to irrigate landscaping during the two days following rainfall). There can be no assurance that subsequent declarations will not impose mandatory water use restrictions should dry conditions persist in 2021 or future years. Following on the Governor’s declaration, San Diego County Water Authority, which

supplies water at wholesale to the City's potable water system, activated Level 1 of its water shortage contingency plan on October 28, 2021, calling for all water users to voluntarily reduce water use by 15%. There can be no assurance that subsequent State or San Diego County Water Authority declarations will not impose mandatory water use restrictions should dry conditions persist in 2021 or future years.

The projected Wastewater System operating results that are set forth under the caption “—Projected Operating Results and Debt Service Coverage” do not reflect any reductions in wastewater service demand as a result of drought. The City does not currently expect that any drought restrictions imposed by the State or the City will have a material adverse effect on its ability to pay the 2021 Bonds from Net Revenues. As discussed under the caption “THE WASTEWATER SYSTEM—Wastewater System Rates and Charges,” the City's rate structure consists of variable and fixed rate components. Decreased wastewater service demand is partially offset by a decrease in related variable wastewater treatment costs, while fixed charges largely cover the Wastewater System's fixed operating and maintenance costs. In addition, the City has covenanted to set Wastewater System rates and charges in amounts that it expects to be sufficient to pay the 2021 Bonds from Net Revenues. See the caption “SECURITY FOR THE 2021 BONDS—Rate Covenant.”

### **APPROVAL OF LEGAL PROCEEDINGS**

The valid, legal and binding nature of the 2021 Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix C, and such legal opinion will be attached to each 2021 Bond. Certain legal matters will be passed upon for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and by the City Attorney, for the Underwriter by its counsel, Jones Hall, A Professional Law Corporation, and for the Trustee by its counsel.

### **LITIGATION**

At the time of delivery of and payment for the 2021 Bonds, the City will certify substantially to the effect 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 2021 Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the 2021 Bonds, the Indenture, or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the 2021 Bonds or any action of the City contemplated by any of said documents, nor to the knowledge of the City, is there any basis therefor.

### **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the 2021 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 2021 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 2021 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2021 Bonds to assure that interest on the 2021 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 2021 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2021 Bonds. The City has covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable 2021 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 2021 Bond Owner's basis in the applicable 2021 Bond (and the amount of tax-exempt interest received with respect to the 2021 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 Bond Owner realizing a taxable gain when a 2021 Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2021 Bond to the Owner. Purchasers of the 2021 Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2021 Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2021 Bonds might be affected as a result of such an audit of the 2021 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 2021 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the 2021 Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE 2021 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 2021 BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2021 BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2021 BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE 2021 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 2021 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 2021 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 2021 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 2021 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 2021 Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 2021 Bonds and the accrual or receipt of interest on the 2021 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 2021 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2021 Bonds.

Should interest on the 2021 Bonds become includable in gross income for federal income tax purposes, the 2021 Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel with respect to the 2021 Bonds is set forth in Appendix C.

## RATING

The City expects that S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), will assign the 2021 Bonds the rating of "AA-". Future events, including the impacts of the COVID-19 pandemic that is described under the caption "THE CITY—COVID-19 Outbreak," could have an adverse impact on the rating of the 2021 Bonds, and there is no assurance that any credit rating that is given to the 2021 Bonds will be maintained for any period of time or that the rating may not be qualified, downgraded, lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such qualification, downgrade, lowering or withdrawal of the rating may have an adverse effect on the market price of the 2021 Bonds. The rating reflects only the views of S&P (which views and criteria could change at any time), and an explanation of the significance of such rating may be obtained from S&P. Generally, a rating agency bases its ratings on the information and materials furnished to it (which may include information and material from the City that is not included in this Official Statement) and on investigations, studies and assumptions of its own.

The City has covenanted in a Continuing Disclosure Certificate to file notices of any rating changes on the 2021 Bonds with EMMA. See the caption "CONTINUING DISCLOSURE" and Appendix E. Notwithstanding such covenant, information relating to rating changes on the 2021 Bonds may be publicly available from the rating agencies prior to the time that such information is 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 2021 Bonds are directed to the rating agencies and their respective websites and official media outlets for the most current ratings with respect to the 2021 Bonds after the initial issuance of the 2021 Bonds.

In providing a rating on the 2021 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. 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, as municipal advisor (the "**Municipal Advisor**") in connection with the issuance of the 2021 Bonds. The Municipal Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. 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 2021 Bonds will be purchased by Stifel, Nicolaus & Company, Incorporated (the "**Underwriter**"), pursuant to a purchase contract, dated the date hereof (the "**Purchase Contract**"), by and between the City and the Underwriter. Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the 2021 Bonds for an aggregate purchase price of \$25,950,075.39 (representing the principal amount of the 2021 Bonds, plus an original issue premium of \$4,523,888.75, and less an Underwriter's discount of \$123,813.36). The Purchase Contract provides that the Underwriter will purchase

all of the 2021 Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter has entered into an agreement with its affiliate Vining-Sparks IBG, LLC (“V-S”), for the distribution of certain municipal securities offerings at the original issue price. Pursuant to that distribution agreement, V-S may purchase 2021 Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any 2021 Bonds that V-S sells.

The initial public offering prices stated on the inside cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2021 Bonds to certain dealers (including dealers depositing 2021 Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

### CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate, dated the date of issuance of the 2021 Bonds, for the benefit of the holders and Beneficial Owners of the 2021 Bonds to provide certain financial information and operating data relating to the City by not later than April 1 following the end of the City’s Fiscal Year (currently its Fiscal Year ends on June 30) (the “**Annual Report**”), commencing on April 1, 2022 with the report for the Fiscal Year ended June 30, 2021, 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, which is maintained on the Internet at <http://emma.msrb.org/>. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events is set forth in Appendix E. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission (the “**Rule**”).

In the past five years: (i) the City filed its audited financial statements for certain Fiscal Years 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; (ii) the City entered into an installment sale agreement with the California Infrastructure and Economic Development Bank in September 2021 which constituted a “financial obligation” under the Rule, but notice of such installment sale agreement was filed with EMMA approximately 35 days later than the date required by the Rule; and (iii) the City did not provide notice of a 2017 rating downgrade of a municipal bond insurer that insured certain obligations of the City which were issued in 2007. 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.

### FINANCIAL INTERESTS

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and counsel to the Underwriter are contingent upon the issuance and delivery of the 2021 Bonds.



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**APPENDIX A**  
**FINANCIAL STATEMENTS**

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# Comprehensive Annual Financial Report

Fiscal Year Ending June 30, 2020

WESTERN  
UNION

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City of Escondido  
California



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CITY OF ESCONDIDO - CALIFORNIA

# Comprehensive Annual Financial Report

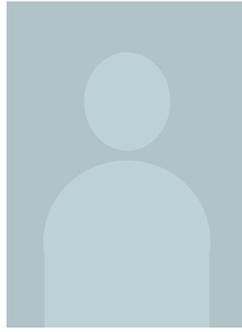
Fiscal Year Ended June 30, 2020



Paul McNamara  
Mayor



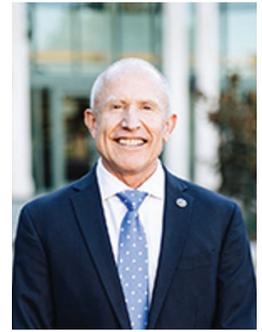
Consuelo Martinez  
Deputy Mayor



(Vacant)  
Council Member  
District 2



Olga Diaz  
District 3



Michael Morasco  
District 4

CITY MANAGER  
Jeffrey R. Epp

Prepared by the Finance Department





**CITY OF ESCONDIDO**  
**Comprehensive Annual Financial Report**  
**Table of Contents**  
**June 30, 2020**

---

	<u>Page</u>
<b>INTRODUCTORY SECTION:</b>	
Principal Officers	1
Table of Contents	3
Organization Chart	7
Letter of Transmittal	8
Certificate of Achievement for Excellence in Financial Reporting	13
 <b>FINANCIAL SECTION:</b>	
Independent Auditors' Report on the Financial Statements	15
Management's Discussion and Analysis (Unaudited)	19
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	34
Statement of Activities	36
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	38
Reconciliation of the Balance Sheet to the Statement of Net Position	39
Statement of Revenues, Expenditures, and Changes in Fund Balances	40
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	41
Proprietary Funds:	
Statement of Net Position	42
Statement of Revenues, Expenses, and Changes in Fund Net Position	44
Statement of Cash Flows	46

**CITY OF ESCONDIDO**  
**Comprehensive Annual Financial Report**  
**Table of Contents (Continued)**  
**June 30, 2020**

---

**Page**

**FINANCIAL SECTION (Continued):**

Basic Financial Statements:

Fund Financial Statements:

Fiduciary Funds:

Statement of Fiduciary Net Position 48

Statement of Changes in Fiduciary Net Position 49

Notes to Basic Financial Statements 50

Required Supplementary Information (Unaudited):

Budgetary Comparison Schedules:

General Fund 104

Successor Agency Housing Fund 106

Schedule of Changes in Net Position Liability and Related Ratios - Miscellaneous Plan 107

Schedule of Changes in Net Position Liability and Related Ratios - Safety Plan 109

Schedule of Plan Contributions - Miscellaneous Plan 111

Schedule of Plan Contributions - Safety Plan 113

Notes to Required Supplementary Information 115

Supplementary Information:

Nonmajor Governmental Funds:

Combining Balance Sheet 120

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances 125

Budgetary Comparison Schedules:

Certain Special Revenue Funds:

Street Fund 130

Community Services Fund 131

Community Development Block Grant Fund 132

Landscape and Assessment District Fund 133

**CITY OF ESCONDIDO**  
**Comprehensive Annual Financial Report**  
**Table of Contents (Continued)**  
**June 30, 2020**

**Page**

**FINANCIAL SECTION (Continued):**

Supplementary Information:

Budgetary Comparison Schedules:

Certain Special Revenue Funds:

Law Enforcement Fund	134
HOME Fund	135
Miscellaneous Grants Fund	136
Vehicle Parking District Fund	137

Debt Service Fund:

General Obligation Debt Service Fund	138
Golf Course Fund	139

Internal Service Funds:

Combining Statement of Net Position	141
Combining Statement of Revenues, Expenses and Changes in Fund Net Position	143
Combining Statement of Cash Flows	145

Agency Funds:

Combining Statement of Assets and Liabilities	150
Combining Statements of Changes in Assets and Liabilities	151

**STATISTICAL SECTION (Unaudited):**

Financial Trends Information:

Net Position by Component – Last Ten Fiscal Years	156
Changes in Net Position – Last Ten Fiscal Years	158
Fund Balances of Governmental Funds – Last Ten Fiscal Years	162
Changes in Fund Balances of Governmental Funds – Last Ten Fiscal Years	164

**CITY OF ESCONDIDO**  
**Comprehensive Annual Financial Report**  
**Table of Contents (Continued)**  
**June 30, 2020**

---

**Page**

**STATISTICAL SECTION (Unaudited) (Continued):**

Revenue Capacity Information:

Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years	166
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	167
Principal Property Taxpayers – Current Year and Nine Years Ago	168
Property Tax Levies and Collections – Last Ten Fiscal Years	169
Top 25 Sales Tax Producers	170
Taxable Sales by Category	171

Debt Capacity Information:

Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	173
Ratio of General Bonded Debt Outstanding – Last Ten Fiscal Years	175
Direct and Overlapping Debt	176
Legal Debt Margin Information – Last Ten Fiscal Years	177
Pledged-Revenue Coverage – Last Ten Fiscal Years	179

Demographic and Economic Information:

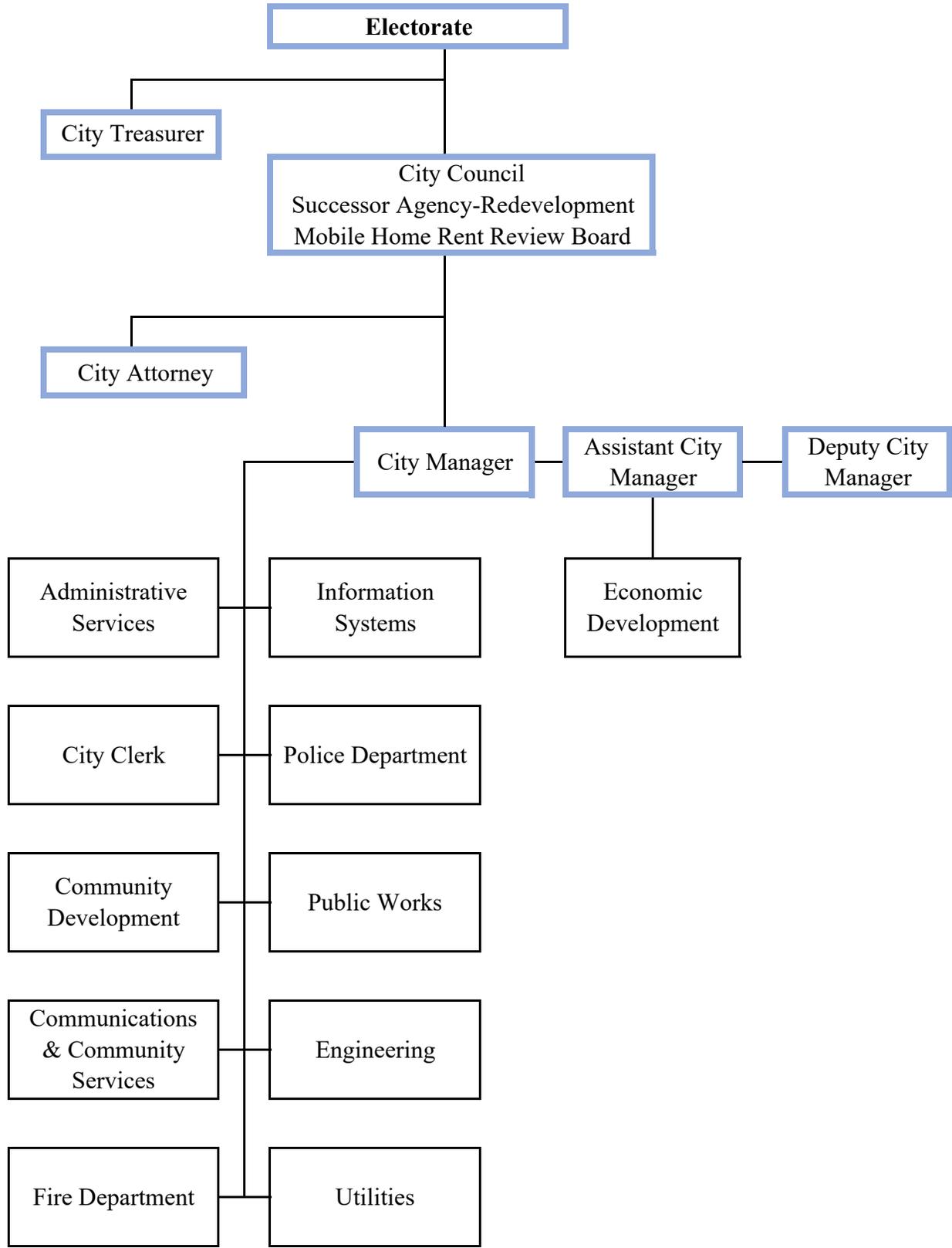
Demographic and Economic Statistics – Last Ten Calendar Years	182
Principal Employers – Current Year and Nine Years Ago	183

Operating Information:

Full-time and Part-time City Employees by Function – Last Ten Fiscal Years	184
Operating Indicators by Function – Last Ten Fiscal Years	185
Capital Asset Statistics by Function – Last Ten Fiscal Years	186

**CITY OF ESCONDIDO**  
**Organization Chart**  
**June 30, 2020**

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December 29, 2020

Honorable Mayor, Members of the City Council,  
and Residents of the City of Escondido, California:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Escondido for the fiscal year ended June 30, 2020.

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, 2020, 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, 2020, 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 estimated to be 151,115. Within the 37 square miles that comprise the City, there are many residential communities; the largest enclosed regional mall in San Diego County; 1 regional hospital; 15 hotels; an auto center; many office, industrial, and commercial centers; and civic, cultural, and recreational facilities.

## **CITY OF ESCONDIDO**

### **Letter of Transmittal**

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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 City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing heads of departments. The operating departments include Administrative Services, City Clerk, Community Development, Community Services, Fire, Information Systems, Police, Public Works, and Utilities.

The City of Escondido is a full-service City providing the following services to its residents and visitors: police and fire protection, building safety regulation and inspection, circulation and public facility capital improvement construction, street and park maintenance, planning and zoning, a full range of recreational programs for citizen participation, a senior center, a library, and water and wastewater services. Escondido continues to establish itself as the “City of Choice” for businesses, developments, and families who are seeking a quality environment in which to live, work and play.

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.

A key element of the City's financial management process is the development and approval of an annual budget. 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. The budget is regularly monitored and the City Council receives quarterly financial updates. Budget-to-actual comparisons are provided in this report for each major governmental fund for which an annual budget has been adopted.

### **ECONOMIC CONDITION AND OUTLOOK**

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.

At the start of the calendar year 2020, the federal, state, and local economic outlook was positive. Home prices in San Diego County were at near record highs due to low mortgage interest rates. The unemployment rate in the County was at a record low of 3.1% in February. Then, as the result of the COVID-19 pandemic, government operations and private businesses were forced to close or drastically alter operations. The restrictions have limited the City's ability to conduct certain operations and have significantly impacted consumer behavior creating a decrease in spending on certain goods and services.

## CITY OF ESCONDIDO Letter of Transmittal

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Prior to the economic impacts of COVID-19, the General Fund long-term financial plan projected a \$6 million operating budget deficit in Fiscal Year 2020/21 with annual projected deficits continuing to Fiscal Year 2039/40. These deficits are due to projected revenue growth not keeping pace with the projected growth in operational and retirement costs. Approximately 84% of the City's budget is devoted to employee related costs because the City of Escondido serves its citizens primarily by services. Public safety represents the bulk of the City's core services with Police, Fire, and Public Works. These three essential services make up approximately 76% of the General Fund Budget.

With the current social distancing restrictions, travel warnings and closing of non-essential businesses, certain categories of operating revenues have declined significantly in Fiscal Year 2019/20 and will continue to decline but at a slower rate in Fiscal Year 2020/21. Sales tax is the largest General Fund revenue source at 35% of total revenue and is projected to decline in Fiscal Year 2020/21 by 3% to reach \$36 million. Property tax revenue is projected to grow by 2% next year due to an increase in the assessed value of taxable property within the City. Franchise fees are projected to increase due to an anticipated increase in fees through a restructuring of the City's contract with Escondido Disposal. These increases will be offset by decreases in transient occupancy tax due to declines in travel and decreases in business license fees due to the economic slowdown.

Proposed budget reductions submitted by City staff were sufficient to close the projected budget gap and the City adopted a balanced budget for Fiscal Year 2020/21. Even after the cost saving measures, the budget relies on \$4 million of one-time funds from the Redevelopment Loan payment to the City. The structural budget gap consistently present in the City's finances, plus the inevitable lingering impacts of the COVID-19 pandemic make addressing future City revenue the highest priority of staff, policymakers and the community.

### **FINANCIAL INFORMATION**

The City has adopted budgetary and financial policies over various program and activities for many benefits, some of which are the safeguarding of resources and providing guidance for the development and administration of the operating budget and long-term financial plan.

**Investment Policy.** 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. To meet these objectives, the City attempts to obtain the highest yield on its investments consistent with the preservation of principal and liquidity. Quarterly investment reports are submitted to the City Manager and City Council 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.

**Debt Management Policy.** The City Council has adopted a debt management policy in compliance with Senate Bill 1029 to improve public debt financial transparency. The objective of the debt policy is to achieve sound administration of City debt by minimizing debt service and issuance costs, maintaining the highest reasonable credit rating, and ensuring complete financial disclosure and compliance with tax code, securities regulations, and State and Federal laws.

**Fund Balance Policy.** The City has implemented a Fund Balance Policy that allows the City Council to commit General Fund Balance for specific purposes by taking formal action, 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. In addition, the City Council established a target General Fund Reserve balance of 25 percent of General Fund operating revenues in order to maintain adequate levels of fund balance to mitigate current and future risks and adequately provide for cash flow requirements and contingencies for unseen operating or capital needs of the City.

**Other Financial Policies.** Additional policies adopted by City Council can be found within the City's current year adopted budget located on the City website at: <https://www.escondido.org/city-financial-policies.aspx>.

**CITY OF ESCONDIDO**  
**Letter of Transmittal**

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**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, 2019. 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,



Christina Holmes  
Director of Finance





Government Finance Officers Association

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Presented to

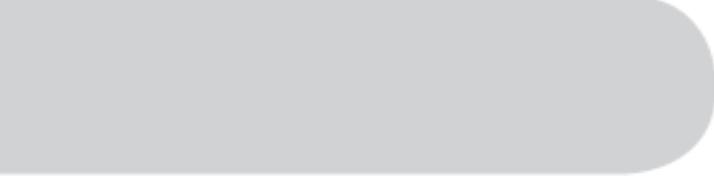
**City of Escondido  
California**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*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 unit, 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, 2020, 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.

### Auditors' 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 unit. 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 92122

Tel: 858-242-5100 • Fax: 858-242-5150

[www.pungroup.com](http://www.pungroup.com)

## **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 unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2020, 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 32 and 104 through 115 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  
Escondido, California  
Page 3

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2020, 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.

*The PwC Group, LLP*

San Diego, California  
December 29, 2020

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## CITY OF ESCONDIDO Management's Discussion and Analysis

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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, 2020. 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 and the accompanying Basic Financial Statements.

### 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* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. 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.

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 is 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.

## CITY OF ESCONDIDO

### Management's Discussion and Analysis

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**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 by using an accounting method called *modified accrual accounting* which measures cash and all other financial assets that can readily be converted to cash. 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.

**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 Building Maintenance, Vehicle and Equipment Maintenance, Central Services, Network and Systems Administration, Workers' Compensation, General Liability, and Insurance 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.

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

**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.

**Financial Analysis of Government-Wide Financial Statements**

This section focuses on the City's net position and changes in net position of its governmental and business-type activities for the fiscal year ending June 30, 2020. 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 \$439,466,745, an increase of \$4.2 million or .96 percent.

**City of Escondido's Summary of Net Position**

As of June 30, 2020 and 2019

(Amounts expressed in thousands)

	Governmental activities		Business-type activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 225,517	\$ 196,049	\$ 103,633	\$ 78,280	\$ 329,150	\$ 274,329
Capital assets	291,202	292,307	315,810	307,522	607,012	599,829
Total Assets	<u>516,719</u>	<u>488,356</u>	<u>419,443</u>	<u>385,802</u>	<u>936,162</u>	<u>874,158</u>
Deferred outflows of resources	30,976	35,924	6,456	8,052	37,432	43,976
Long-term liabilities outstanding	297,044	299,300	176,832	163,704	473,876	463,004
Other liabilities	34,251	13,599	21,706	12,169	55,957	25,768
Total Liabilities	<u>331,295</u>	<u>312,899</u>	<u>198,538</u>	<u>175,873</u>	<u>529,833</u>	<u>488,772</u>
Deferred inflows of resources	3,014	1,440	1,280	499	4,294	1,939
Net position:						
Net investment in capital assets	221,761	218,871	184,746	195,706	406,507	414,577
Restricted	124,689	115,517	15,665	1,096	140,354	116,613
Unrestricted	(133,064)	(124,447)	25,670	20,680	(107,394)	(103,767)
Total net position	<u>\$ 213,386</u>	<u>\$ 209,941</u>	<u>\$ 226,081</u>	<u>\$ 217,482</u>	<u>\$ 439,467</u>	<u>\$ 427,423</u>

The largest portion of the City's net position (92.5 percent or \$406.5 million) is its net investment in capital assets such as land, buildings, infrastructure, and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's net position (31.9 percent or \$140.4 million) represent resources that are subject to external restrictions on how they may be used.

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

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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, 2020, unrestricted net position was a deficit of (\$107.4) million primarily due to the recording of the net pension liability as part of the implementation of Government Accounting Standards Board (GASB) No. 68 and 71 in fiscal year ending June 30, 2015.

The City's net pension liability at June 30, 2020, is \$254.3 million, compared to \$243.2 million at June 30, 2019, an increase of \$11.0 million. Changes in the various components associated with the pension pronouncement affected current year expenses, deferred outflows and inflows, as well as the pension liability for the year for both governmental and business type activities.

The City has 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, 2020, the Section 115 Trust balance amounted to \$13.6 million held in restricted cash and investments in the General Fund.

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. Components of the \$12.1 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

**Analysis of Changes in Net Position – Governmental activities**

The following analysis focuses on the net position and changes in net position of the City's Governmental Activities, presented in the Government-wide Statement of Net Position and Statement of Activities. Governmental activities increased the City's net position by \$3,445,414.

<b>Governmental Activities</b>			
Net Position at June 30			
<i>(Amounts expressed in thousands)</i>			
	2020	2019	Increase / (Decrease)
Current and other assets	\$ 225,517	\$ 196,049	\$ 29,468
Capital assets	291,202	292,307	(1,105)
Total Assets	516,719	488,356	28,363
Deferred outflows of resources	30,976	35,924	(4,948)
Long-term liabilities outstanding	297,044	299,300	(2,256)
Other liabilities	34,251	13,599	20,652
Total Liabilities	331,295	312,899	18,396
Deferred inflows of resources	3,014	1,440	1,574
Net position:			
Net investment in capital assets	221,761	218,871	2,890
Restricted	124,689	115,517	9,172
Unrestricted	(133,064)	(124,447)	(8,617)
Total net position	\$ 213,386	\$ 209,941	\$ 3,445

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

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**Governmental activities – Net Position**

Cash and investments and other liabilities of governmental funds increased from the prior fiscal year due to the implementation of Government Accounting Standards Board (GASB) No. 84. The Deposit Trust Fund was reported as an Agency Fund in the prior year, however, the amounts being held were from advance payments for City services and were therefore reclassified as a deposit payable in the appropriate fund.

Restricted net position of the governmental activities was increased by an additional \$6.6 million transferred to the Section 115 Pension Trust Fund.

**Governmental activities – Revenues**

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. Total governmental revenues increased by \$13,224,208 or 9.4 percent during the current fiscal year resulting in total revenues of \$153.7 million.

**Governmental Activities - Revenues**

For the Year Ended June 30

(Amounts expressed in thousands)

<u>Revenues by Source</u>	<u>2020</u>	<u>2019</u>	<u>Increase / (Decrease)</u>
Program revenues:			
Charges for services	\$ 20,640	\$ 19,848	\$ 792
Operating grants and contributions	12,072	15,009	(2,937)
Capital grants and contributions	6,812	7,654	(842)
Total program revenues	<u>39,524</u>	<u>42,511</u>	<u>(2,987)</u>
General revenues:			
Sales tax	42,665	44,602	(1,937)
Property taxes	36,336	34,572	1,764
Other taxes	10,720	10,536	184
Other	24,468	8,268	16,200
Total general revenues	<u>114,189</u>	<u>97,978</u>	<u>16,211</u>
Total Revenues	<u>\$ 153,713</u>	<u>\$ 140,489</u>	<u>\$ 13,224</u>

Key elements of this change are discussed below.

- Sales tax revenue decreased by \$1.9 million, or 4.3 percent, compared to the prior year. In March 2020 a state of emergency was declared because of the COVID-19 pandemic. Government operations and private businesses were forced to close or drastically alter operations. Actions taken by all levels of government to slow the spread of the deadly virus had a major impact on national, state and local economies. The decrease in sales tax revenue is a result of these closures; however, decreases in every economic segment were offset by an increase in revenues from online sales activity as a result of the Wayfair decision.
- Property tax revenue increased by \$1,764,436 over the prior fiscal year or 5.1 percent due to increased property assessed value growth for Escondido compared to the prior year.
- Other tax revenue is composed of franchise, transient occupancy, business license, transfer station, and refuse taxes. Revenues received from franchise agreements increased by \$300,000 from the prior fiscal year primarily due to the amended franchise agreement with EDI that went into effect July 1, 2019. This increase was offset by a decrease in Transient Occupancy Tax as a result of the closures due to the public health orders.

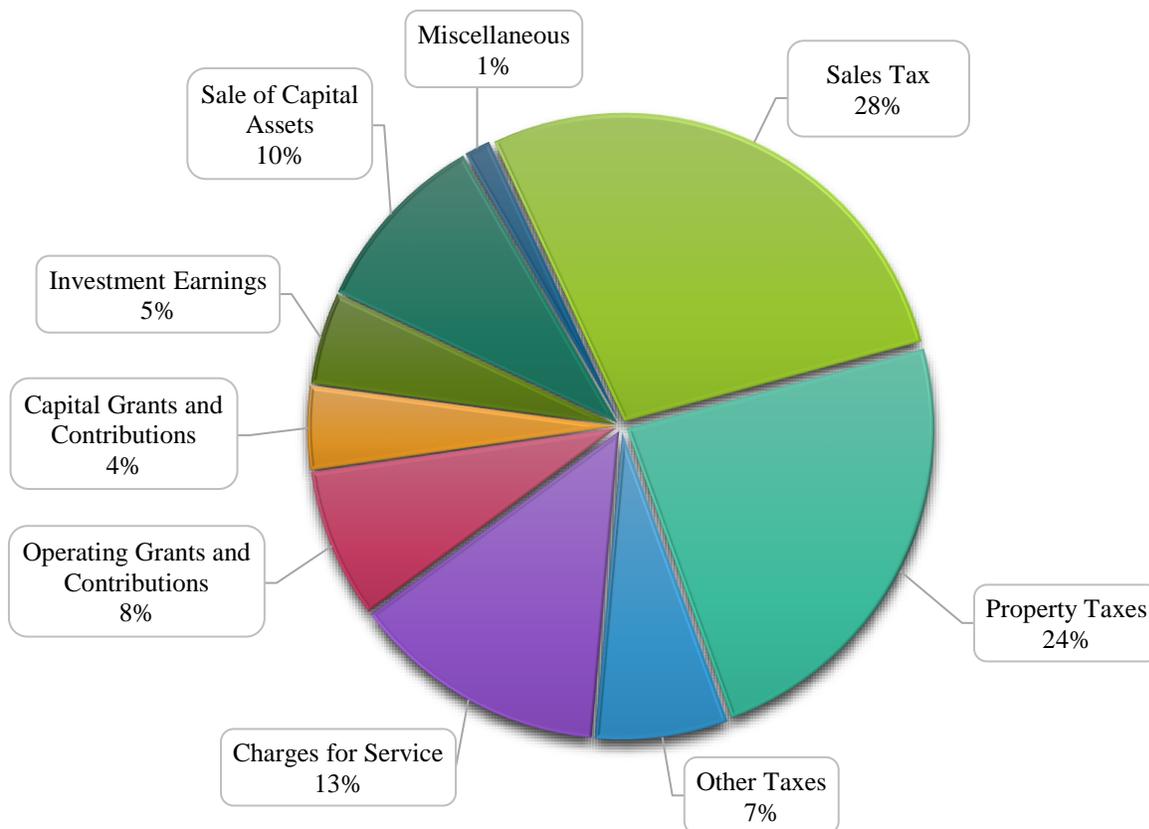
**CITY OF ESCONDIDO**  
**Management's Discussion and Analysis**

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- Overall charges for services increased by \$792,000 or 4.0 percent. Public Works and Engineering fees are up about \$1.8 million compared to the prior year due to increased residential construction projects as well as developer deposit funds recognized as revenue in the current fiscal year. These increases were offset by a \$1.1 million decrease in Community Services revenue as a result of the closures due to the public health orders.
- Operating grants and contributions decreased by \$2.9 million, or 19.5 percent, and capital grants and contributions decreased by \$842,000, or 10.9 percent, compared to the prior year. This is due to Housing and Community Development projects completed in the prior fiscal year.
- Other revenue increased by \$16,200,530 primarily due to the sale of capital assets. In August 2019, City Council approved the sale of Windsor Gardens Apartments to Windsor Gardens Housing Associates. As a result of the sale of property, the General Fund received \$4.1 million in February 2020 and recorded a loan receivable and deferred revenue of \$10,800,000.

**Governmental activities – Revenues by Source**

The chart below presents revenues by source for 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**

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**Governmental activities – Expenses**

The table below presents a comparison of fiscal year 2020 and fiscal year 2019 expenses by function, along with interest and other expenses.

**Governmental Activities**  
Expenses and Change in Net Position for the Year Ended June 30  
(Amounts expressed in thousands)

	2020	2019	Increase / (Decrease)
Expenses:			
General government	\$ 14,133	\$ 11,595	\$ 2,538
Public safety	87,384	80,834	6,550
Community services	14,854	14,394	460
Public works	25,322	27,320	(1,998)
Community development	6,217	5,388	829
Interest and fiscal charges	2,552	2,695	(143)
Total expenses	<u>150,462</u>	<u>142,226</u>	<u>8,236</u>
Increase (decrease) in net position before transfers	3,251	(1,737)	4,988
Transfers	<u>195</u>	<u>25</u>	<u>170</u>
Increase (decrease) in net position after transfers	3,446	(1,712)	5,158
Net position – July 1	209,940	211,652	(1,712)
Net position – June 30	<u>\$ 213,386</u>	<u>\$ 209,940</u>	<u>\$ 3,446</u>

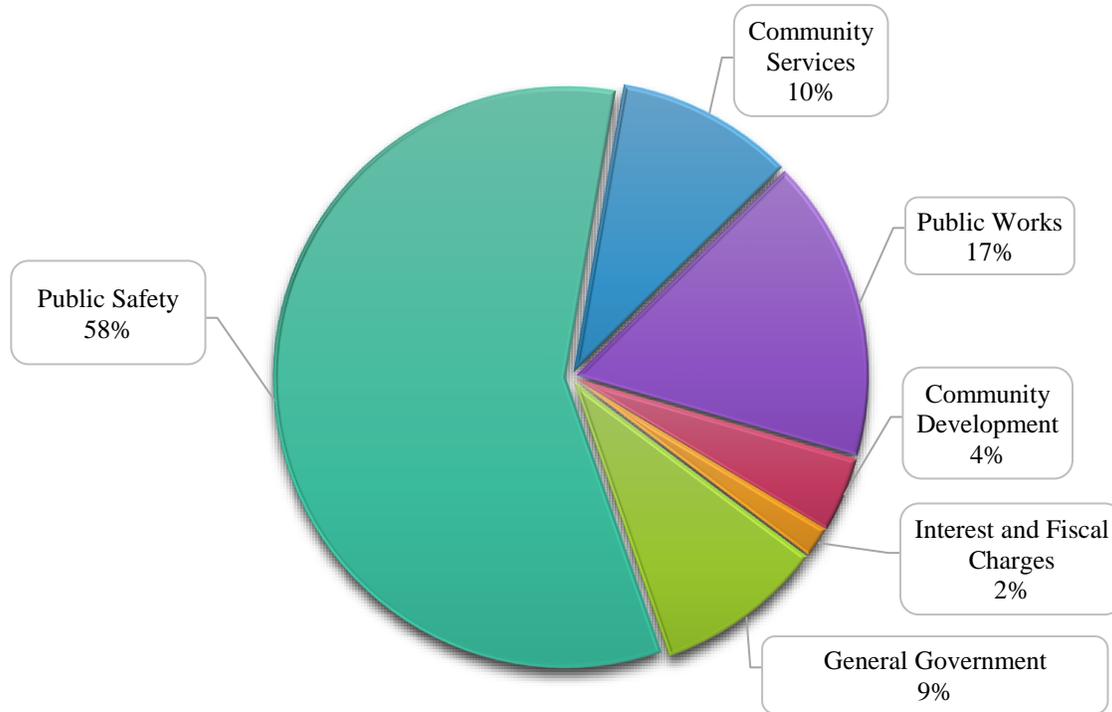
Governmental activities expenses increased by \$8.2 million, or 5.8 percent, in fiscal year 2019/20. This is primarily attributable to increases in salaries, CalPERS contributions, contracts and maintenance and repairs.

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

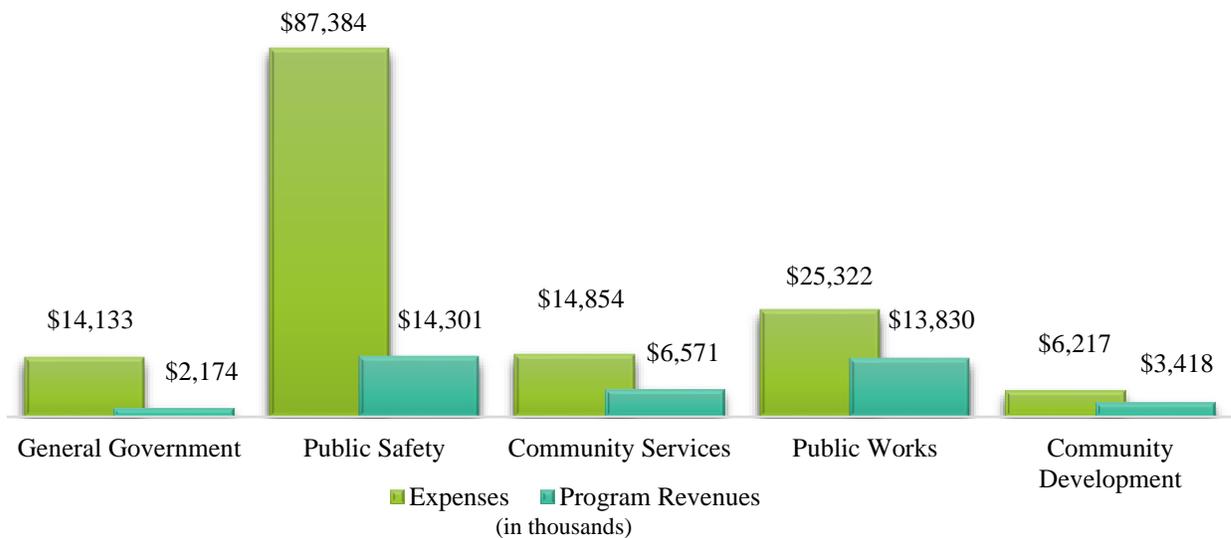
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**Governmental activities – Expenses**

The chart below presents current year expenses by function for Governmental Activities. Capital outlays are not included as those are added to the City's capital assets.



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 below compares program expenses to program revenues depicting the extent to which these programs generate revenue from fees and grants.



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

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

The following analysis focuses on the net position and changes in net position of the City's Business-type Activities presented in the Government-wide Statement of Net Position and Statement of Activities.

<b>Business-Type Activities</b>			
Net Position at June 30			
<u>(Amounts expressed in thousands)</u>			
	<u>2020</u>	<u>2019</u>	<u>Increase / (Decrease)</u>
Current and other assets	\$ 103,633	\$ 78,280	\$ 25,353
Capital assets	315,810	307,522	8,288
Total Assets	<u>419,443</u>	<u>385,802</u>	<u>33,641</u>
Deferred outflows of resources	<u>6,456</u>	<u>8,052</u>	<u>(1,596)</u>
Long-term liabilities outstanding	176,832	163,704	13,128
Other liabilities	21,706	12,169	9,537
Total Liabilities	<u>198,538</u>	<u>175,873</u>	<u>22,665</u>
Deferred inflows of resources	<u>1,280</u>	<u>499</u>	<u>781</u>
Net position:			
Net investment in capital assets	184,746	195,706	(10,960)
Restricted	15,665	1,096	14,569
Unrestricted	<u>25,670</u>	<u>20,680</u>	<u>4,990</u>
Total net position	<u><u>\$ 226,081</u></u>	<u><u>\$ 217,482</u></u>	<u><u>\$ 8,599</u></u>

At the end of the current fiscal year, the unrestricted net position of the Water and Wastewater Fund amounted to \$9,567,785, and \$17,043,271 respectively. 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.

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

The table below presents the revenues and expenses for each of the City's Business-type Activities or Enterprise Funds. Business-type activities increased the City's net position by \$8,599,258.

**Business-type Activities - Change in Net Position**

For the Year Ended June 30

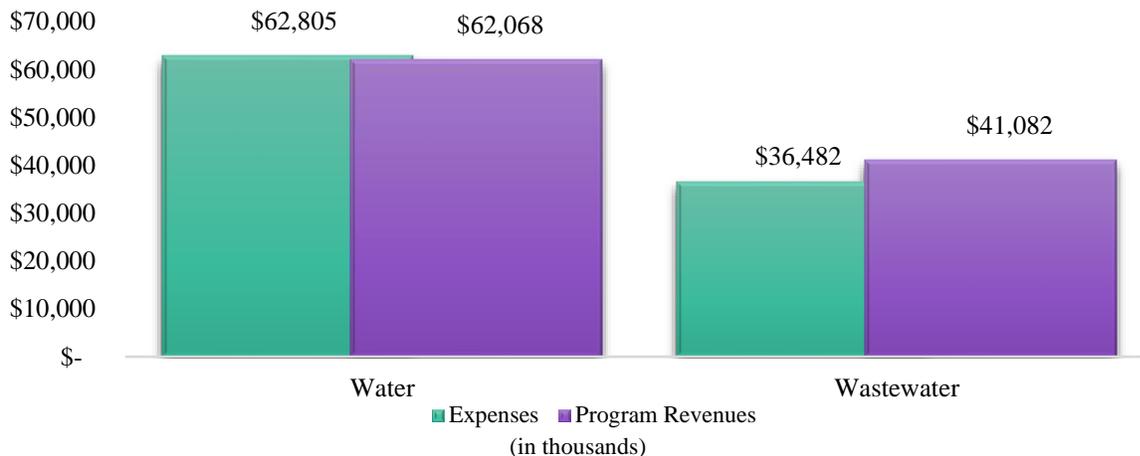
*(Amounts expressed in thousands)*

	2020	2019	Increase / (Decrease)
Program revenues:			
Charges for services	\$ 96,701	\$ 93,276	\$ 3,425
Operating grants and contributions	75	152	(77)
Capital grants and contributions	6,375	4,860	1,515
Other general revenues	4,931	4,474	457
Total revenues	<u>108,082</u>	<u>102,762</u>	<u>5,320</u>
Expenses:			
Water	62,806	60,286	\$ 2,520
Wastewater	<u>36,482</u>	<u>33,670</u>	<u>2,812</u>
Total expenses	<u>99,288</u>	<u>93,956</u>	<u>5,332</u>
Increase (decrease) in net position before transfers	8,794	8,806	(12)
Transfers	<u>(195)</u>	<u>(25)</u>	<u>(170)</u>
Increase (decrease) in net position after transfers	8,599	8,781	(182)
Net position – July 1	<u>217,482</u>	<u>208,701</u>	<u>8,781</u>
Net position – June 30	<u><u>\$226,081</u></u>	<u><u>\$217,482</u></u>	<u><u>\$ 8,599</u></u>

The Water Fund ended the year with a change in net position of \$2.6 million. This was the result of an increase in water charges for services of \$1.8 million compared to the prior year mainly due to increased water consumption. Water operating expenses also increased due to purchased water costs and increased salaries, pension costs, and utilities.

The Wastewater Fund ended the year with a change in net position of \$6.3 million. Charges for services and operating expenses increased from the prior year due to approved service rate increases and increases and salaries and maintenance expenses. In addition, intergovernmental and capital contribution revenue increased due to continued construction activity on the Membrane Filtration Reverse Osmosis Facility.

The following chart summarizes expenses and program revenues separately for the Water and Wastewater funds.



## CITY OF ESCONDIDO Management's Discussion and Analysis

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### 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 \$130,384,829, an increase of \$5,044,538 in comparison with the prior year. Of this amount, 1.7 percent or \$2,159,269 represents non-spendable assets, advances and loans receivable, which are not expected to be converted to cash until future periods.

Approximately 82.3 percent of this total amount or \$107,325,158 is not available for new spending because it is legally restricted by external third parties. In addition, \$20,521,702 or 15.7 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 \$378,700 is comprised of unassigned funds in the General Fund of \$1,897,735 and deficit fund balances in non-major special revenue funds of \$1,516,035. 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 \$37,088,699. 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 16.6 percent of total General Fund expenditures, while total fund balance represents 35.3 percent of that same amount.

The restricted portion of the fund balance of the General Fund of \$13,572,027 is the total value of assets held in the Section 115 Pension Trust Fund discussed above.

During the current fiscal year, the fund balance of the City's General Fund increased by \$3,309,597, or 9.8 percent, compared to the prior year. The increase is primarily due to the sale of capital assets, Windsor Gardens Apartments, discussed above.

### 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 \$110.2 million and estimated expenditures and transfers out of \$110.2 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 \$105.4 million to the final general fund budgeted revenue of \$103.4 million results in a net decrease in budgeted revenue of \$1.9 million.

The primary reason for the decrease to budgeted revenue is due to the economic effects of the COVID-19 pandemic. Sales tax revenue was reduced by a \$2.0 million and transient occupancy tax revenue was reduced by \$525,000. These decreases were offset by an increase to property tax revenue of \$335,000.

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

Comparison of the fiscal year original general fund budgeted expenditures of \$106.8 million to the final General Fund budgeted expenditures of \$108.5 million results in a net increase in budgeted expenditures of \$1.6 million. A \$1.2 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 \$928,000 greater than final budgeted amounts and expenditures were \$3.5 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.

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, 2020, the City’s investments in capital assets for its governmental and business-type activities are \$607,012,786, (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. Further detail can be found in Note 7 to the financial statements.

The total increase in the City’s investment in capital assets for the current fiscal year is 1.2 percent; this represents a .4 percent decrease for governmental activities and a 2.7 percent increase for business-type activities.

**City of Escondido’s Capital Assets**

(net of depreciation / in thousands)

	Governmental activities		Business-type activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 52,704	\$ 52,704	\$ 3,138	\$ 3,138	\$ 55,842	\$ 55,842
Buildings and systems	91,591	97,003	10,347	10,820	101,938	107,823
Improvements other than buildings	15,050	13,963	726	756	15,776	14,719
Machinery and equipment	12,836	14,018	2,852	2,543	15,688	16,561
Infrastructure	101,804	101,825	259,855	259,681	361,659	361,506
Construction in progress	17,217	12,794	38,892	30,584	56,109	43,378
<b>Total</b>	<b>\$ 291,202</b>	<b>\$ 292,307</b>	<b>\$ 315,810</b>	<b>\$ 307,522</b>	<b>\$ 607,012</b>	<b>\$ 599,829</b>

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

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

Construction in progress increased by a net \$4.4 million due to current year additions of \$8,861,015 and transfers of construction in progress of \$4,437,544.

Current year additions include several street projects; continued construction on the bridge over the Escondido Creek with improvements to widen El Norte Parkway to match the bridge width. This project also includes pavement reconstruction and median landscape enhancements from East Valley Parkway to Washington Street.

Current year transfers of construction in progress included several completed projects. The major projects include completion of repair and improvement of priority storm drainage facilities, including deteriorated storm drains and failing channels, as well as to make improvements to drainage facilities to extend their service life. Phase five of the Tulip Street project was completed, which included adding new curbs, gutters, retaining walls, sidewalks, streetlights and street surfaces. Traffic signals were constructed at various locations throughout the City, partially funded by a Highway Safety Improvement Grant.

Machinery and equipment increased by a net \$956,000. This was due to the purchase of several Lifeline CPR machines as well as the refurbishment and improvements made to a fire ladder truck. Motorized vehicles also increased by a net \$1,014,000. The City has a vehicle replacement schedule that predetermines vehicles that will need replacement in the near future. In the prior year the City was transitioning to a new auction service resulting in some delays of new purchases. This fiscal year multiple vehicles were purchased as well as several large pieces of equipment including a GapVax truck and two Medix vehicles.

Additions and transfers to infrastructure totaled \$4.6 million. These additions were streets, signalized lights, and storm drain contributed by developers and the completed infrastructure from the East Valley Parkway and Missing Link project.

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

Construction in progress increased by a net \$8.3 million due to current year additions of \$15,414,619 and transfers of construction in progress of \$7,106,878. Current year major additions to CIP include the Recycled Water Easterly Main tank and pump station project and pipeline replacement projects. Current year transfers of construction in progress was due to completion of the Brine pipeline from Broadway to the Hale Avenue Resource and Recovery Facility project.

Machinery and equipment increased by a net \$1,030,556 due to the purchase of various pumps and actuators, along with other equipment.

Net additions to the water system totaled \$1.0 million with transfers from CIP and additions due to water line replacements. Contributions of \$997,581 are the water lines contributed by developers for the Centre City Shopping Center, Citron Development, Bernardo Acres, and Lexington Projects.

Net additions to the sewer system totaled \$7.7 million with transfers from CIP. Contributions of \$733,786 are the sewer lines and infrastructure contributed by developers for the Centre City Shopping Center, Citron Development, Bernardo Acres, and Lexington Projects.

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

**Long-term debt.** Each of the City's debt issues is discussed in detail in Note 8 to the financial statements. At the end of the current fiscal year, the City has total long-term debt outstanding of \$475 million, an increase of \$24 million. Changes to the City's governmental activities outstanding debt during the current fiscal year are due to routine principal payments on amounts outstanding and changes in the pension liability for the year. Business-type activities outstanding debt increased by \$17.1 million from the prior year. New loans totaling \$21.3 million were received for ongoing capital projects. In addition, two outstanding bonds were refunded in the current fiscal year.

**City of Escondido's Outstanding Debt**

*(Amounts expressed in thousands)*

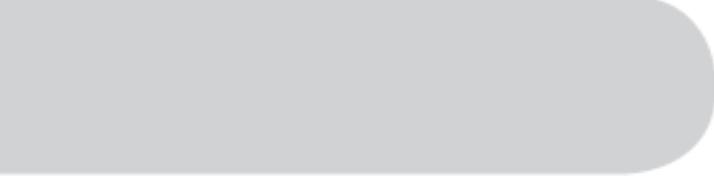
	Governmental activities		Business-type activities		Total	
	2020	2019	2020	2019	2020	2019
Compensated absences	\$ 7,358	\$ 6,854	\$ 1,504	\$ 1,318	\$ 8,862	\$ 8,172
Net pension liability	211,657	202,553	42,626	40,686	254,283	243,239
Claims payable	17,875	17,614	-	-	17,875	17,614
Loans payable	2,258	2,675	30,391	11,306	32,649	13,981
Capital leases	1,423	1,893	-	-	1,423	1,893
Connection rights payable	-	-	12,978	12,988	12,978	12,988
Certificates of participation	-	-	-	24,615	-	24,615
Revenue Bonds	-	-	88,915	68,445	88,915	68,445
Lease Revenue Bonds	3,270	3,515	-	-	3,270	3,515
General Obligation Bonds	54,845	56,810	-	-	54,845	56,810
	<u>\$298,686</u>	<u>\$291,914</u>	<u>\$176,414</u>	<u>\$ 159,358</u>	<u>\$475,100</u>	<u>\$451,272</u>

**Factors Affecting Next Year's Budget**

The fiscal year 2020/21 General Fund operating budget has been balanced without relying on the use of reserves for the tenth year in a row. Available General Fund resources are anticipated to be \$110.2 million. The proposed fiscal year 2020/21 General Fund revenue estimate is \$102 million. This represents a decrease of \$5.5 million or 5.0 percent over the fiscal year 2019/20 amended revenue projection. The remaining balance of funding is comprised of \$2.1 million in transfers from other funds, amounts on deposit from PEG fees and the Joslyn Trust and \$5.9 million from the advance payback from the Successor Agency – Redevelopment Fund. Additional information regarding the economic outlook for the City is discussed in the accompanying Transmittal Letter.

**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](http://www.escondido.org).



# Basic Financial Statements

# CITY OF ESCONDIDO

## Statement of Net Position

June 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	California Center for the Arts, Escondido Foundation
<b>ASSETS</b>				
Cash and investments	\$ 99,613,197	\$ 75,978,960	\$ 175,592,157	\$ 2,046,179
Receivables, net of allowances	28,141,216	12,024,392	40,165,608	28,033
Loans receivable	63,838,254	374,281	64,212,535	-
Due from Successor Agency	11,240,040	-	11,240,040	-
Internal balances	941,972	(941,972)	-	-
Due from other governments	5,199,754	529,468	5,729,222	-
Inventory, at cost	557,968	2,197	560,165	17,956
Deposits	431,794	-	431,794	5,900
Prepaid expenses	11,761	-	11,761	114,041
Land held for resale	1,969,237	-	1,969,237	-
Assets held in charitable remainder trust	-	-	-	94,643
Restricted assets:				
Investment in Section 115 Trust	13,572,027	-	13,572,027	-
Cash and investments with fiscal agent	81	15,665,650	15,665,731	-
Capital assets:				
Not being depreciated	79,453,559	42,030,070	121,483,629	-
Being depreciated, net	211,748,607	273,780,550	485,529,157	447,354
<b>Total Assets</b>	<b>516,719,467</b>	<b>419,443,596</b>	<b>936,163,063</b>	<b>2,754,106</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions	30,940,979	5,524,276	36,465,255	-
Deferred loss on refundings	35,024	931,742	966,766	-
<b>Total Deferred Outflows of Resources</b>	<b>30,976,003</b>	<b>6,456,018</b>	<b>37,432,021</b>	<b>-</b>

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Net Position (Continued)**  
**June 30, 2020**

	Primary Government			Component Unit
	Governmental	Business-type	Total	California Center for the Arts, Escondido Foundation
	Activities	Activities		
<b>LIABILITIES</b>				
Accounts payable	4,740,389	6,055,562	10,795,951	95,235
Retentions payable	379,158	6,608,313	6,987,471	-
Accrued interest payable	1,006,610	1,475,307	2,481,917	-
Deposits payable	13,176,554	734,973	13,911,527	-
Accrued expenses	3,471,185	639,443	4,110,628	211,329
Unearned revenue	2,876,611	-	2,876,611	522,324
Long-term debt:				
Due within one year	8,600,974	6,193,340	14,794,314	70,962
Due in more than one year:				
Aggregate net pension liability	211,657,506	42,626,203	254,283,709	-
Other long-term debt	85,386,646	134,205,467	219,592,113	1,094,351
<b>Total Liabilities</b>	<b>331,295,633</b>	<b>198,538,608</b>	<b>529,834,241</b>	<b>1,994,201</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions	2,670,492	751,553	3,422,045	-
Deferred gain on refundings	343,460	528,593	872,053	-
<b>Total Deferred Inflows of Resources</b>	<b>3,013,952</b>	<b>1,280,146</b>	<b>4,294,098</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	221,761,230	184,746,125	406,507,355	447,354
Restricted for:				
General government	7,234,111	-	7,234,111	-
Low and moderate income housing	79,690,570	-	79,690,570	-
Community services	5,240,733	-	5,240,733	-
Debt service	3,349,540	15,665,650	19,015,190	-
Capital projects	2,096,971	-	2,096,971	-
Public safety	255,054	-	255,054	-
Public works	12,893,081	-	12,893,081	-
Investment in Section 115 Trust	13,572,027	-	13,572,027	-
Permanent funds:				
Nonexpendable	250,034	-	250,034	-
Expendable	106,429	-	106,429	-
Total restricted net position	124,688,550	15,665,650	140,354,200	-
Unrestricted (deficit)	(133,063,895)	25,669,085	(107,394,810)	312,551
<b>Total net position</b>	<b>\$ 213,385,885</b>	<b>\$ 226,080,860</b>	<b>\$ 439,466,745</b>	<b>\$ 759,905</b>

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Activities**  
**For the Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 14,133,562	\$ 829,648	\$ 575,128	\$ 769,720
Public safety	87,384,146	11,433,902	2,097,920	-
Community services	14,854,363	2,522,517	2,925,628	1,122,990
Public works	25,322,314	2,466,849	6,443,282	4,920,096
Community development	6,217,692	3,387,612	30,412	-
Interest and fiscal charges	2,552,817	-	-	-
<b>Total Governmental Activities</b>	<b>150,464,894</b>	<b>20,640,528</b>	<b>12,072,370</b>	<b>6,812,806</b>
<b>Business-type activities:</b>				
Water	62,805,742	60,636,276	-	1,432,180
Wastewater	36,482,537	36,064,926	75,098	4,942,610
<b>Total Business-type Activities</b>	<b>99,288,279</b>	<b>96,701,202</b>	<b>75,098</b>	<b>6,374,790</b>
<b>Total Primary Government</b>	<b>\$ 249,753,173</b>	<b>\$ 117,341,730</b>	<b>\$ 12,147,468</b>	<b>\$ 13,187,596</b>
<b>Component Unit:</b>				
California Center for the Arts, Escondido Foundation	\$ 12,633,950	\$ 4,301,724	\$ 7,719,788	\$ -

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Activities (Continued)**  
**For the Year Ended June 30, 2020**

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		
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ (11,959,066)	\$ -	\$ (11,959,066)	\$ -
Public safety	(73,852,324)	-	(73,852,324)	-
Community services	(8,283,228)	-	(8,283,228)	-
Public works	(11,492,087)	-	(11,492,087)	-
Community development	(2,799,668)	-	(2,799,668)	-
Interest and fiscal charges	(2,552,817)	-	(2,552,817)	-
<b>Total Governmental Activities</b>	<b>(110,939,190)</b>	<b>-</b>	<b>(110,939,190)</b>	<b>-</b>
<b>Business-type activities:</b>				
Water	-	(737,286)	(737,286)	-
Wastewater	-	4,600,097	4,600,097	-
<b>Total Business-type Activities</b>	<b>-</b>	<b>3,862,811</b>	<b>3,862,811</b>	<b>-</b>
<b>Total Primary Government</b>	<b>(110,939,190)</b>	<b>3,862,811</b>	<b>(107,076,379)</b>	<b>-</b>
<b>Component Unit:</b>				
California Center for the Arts, Escondido Foundation	-	-	-	(612,438)
<b>General Revenues:</b>				
Sales tax	42,665,081	-	42,665,081	-
Property tax	36,336,564	-	36,336,564	-
Franchise tax	6,093,168	-	6,093,168	-
Transient occupancy tax	1,696,661	-	1,696,661	-
Business license tax	1,879,920	-	1,879,920	-
Transfer station tax	1,007,417	-	1,007,417	-
Refuse collection tax	42,357	-	42,357	-
Investment earnings	7,414,032	4,210,650	11,624,682	38,006
Gain on sale of capital assets	14,935,539	-	14,935,539	-
Miscellaneous	2,118,865	720,797	2,839,662	154,821
<b>Total general revenues</b>	<b>114,189,604</b>	<b>4,931,447</b>	<b>119,121,051</b>	<b>192,827</b>
<b>Transfers</b>	<b>195,000</b>	<b>(195,000)</b>	<b>-</b>	<b>-</b>
<b>Total general revenues and transfers</b>	<b>114,384,604</b>	<b>4,736,447</b>	<b>119,121,051</b>	<b>192,827</b>
Change in net position	3,445,414	8,599,258	12,044,672	(419,611)
<b>Net position:</b>				
Beginning of year	209,940,471	217,481,602	427,422,073	1,179,516
End of year	<b>\$ 213,385,885</b>	<b>\$ 226,080,860</b>	<b>\$ 439,466,745</b>	<b>\$ 759,905</b>

See Accompanying Notes to Basic Financial Statements.

# CITY OF ESCONDIDO

## Balance Sheet Governmental Funds June 30, 2020

ASSETS	Major Funds			Total Governmental Funds
	General	Successor Agency Housing	Nonmajor Governmental Funds	
Cash and investments	\$ 25,155,720	\$ 7,902,829	\$ 36,624,035	\$ 69,682,584
Receivables (net):				
Accounts	3,414,235	-	9,311	3,423,546
Interest	91,321	10,147,236	5,969,345	16,207,902
Taxes	8,301,178	-	46,340	8,347,518
Loans	11,000,000	35,107,543	17,730,711	63,838,254
Due from other governments	398,510	-	4,801,244	5,199,754
Due from Successor Agency	10,221,613	-	1,018,427	11,240,040
Due from other funds	1,239,077	-	-	1,239,077
Inventory, at cost	-	-	32,376	32,376
Prepaid expenditures	-	-	11,761	11,761
Deposits	-	-	119,194	119,194
Land held for resale	-	1,969,237	-	1,969,237
Advances to other funds	-	-	200,000	200,000
Restricted assets:				
Cash and investments	13,572,027	-	-	13,572,027
Cash and investments with fiscal agent	-	-	81	81
<b>Total Assets</b>	<b>\$ 73,393,681</b>	<b>\$ 55,126,845</b>	<b>\$ 66,562,825</b>	<b>\$ 195,083,351</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,493,934	\$ 3,900	\$ 2,943,852	\$ 4,441,686
Deposits payable	10,547,011	7,500	2,622,043	13,176,554
Retentions payable	-	-	379,158	379,158
Accrued expenditures	3,166,489	10,034	98,557	3,275,080
Due to other funds	-	-	1,239,077	1,239,077
Unearned revenue	-	-	2,876,611	2,876,611
Advances from other funds	200,000	-	-	200,000
<b>Total Liabilities</b>	<b>15,407,434</b>	<b>21,434</b>	<b>10,159,298</b>	<b>25,588,166</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenue	20,897,548	10,118,038	8,094,770	39,110,356
<b>Total Deferred Inflows of Resources</b>	<b>20,897,548</b>	<b>10,118,038</b>	<b>8,094,770</b>	<b>39,110,356</b>
<b>Fund Balances:</b>				
Nonspendable	1,865,098	-	294,171	2,159,269
Restricted	13,572,027	44,987,373	48,765,758	107,325,158
Committed	17,392,319	-	764,863	18,157,182
Assigned	2,364,520	-	-	2,364,520
Unassigned (deficit)	1,894,735	-	(1,516,035)	378,700
<b>Total Fund Balances</b>	<b>37,088,699</b>	<b>44,987,373</b>	<b>48,308,757</b>	<b>130,384,829</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 73,393,681</b>	<b>\$ 55,126,845</b>	<b>\$ 66,562,825</b>	<b>\$ 195,083,351</b>

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, 2020**

<b>Fund balances for governmental funds</b>		\$ 130,384,829
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	\$ 79,453,559	
Capital assets, being depreciated, net	211,748,607	
Less: amount reported in internal services fund	(9,304,759)	281,897,407
A portion of the unavailable revenue is not available to pay for current-period expenditures and, therefore, is not recognized in the funds.		
		39,110,354
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	\$ 11,640,711	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	941,972	12,582,683
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.		
Compensated absences	\$ (7,358,678)	
Claims payable	(17,875,600)	
Loans	(2,258,338)	
Leases	(1,423,757)	
Bonds	(58,115,000)	
Bond premium	(6,962,123)	
Bond discount	5,876	
Deferred gain on refunding	(343,460)	
Deferred loss on refunding	35,024	
Less: amount reported in internal services fund	18,519,839	(75,776,217)
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	(211,657,506)	
Less: amount reported in internal services fund	10,706,977	(200,950,529)
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	30,940,979	
Deferred inflows of resources related to pensions	(2,670,492)	
Less: amount reported in internal services fund	(1,126,519)	27,143,968
Interest payable on noncurrent liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
		(1,006,610)
<b>Net position of governmental activities</b>		<b>\$ 213,385,885</b>

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, 2020**

	Major Funds			Total Governmental Funds
	General Fund	Successor Agency Housing	Nonmajor Governmental Funds	
<b>Revenues:</b>				
Sales tax	\$ 36,651,485	\$ -	\$ -	\$ 36,651,485
Property taxes	29,273,988	-	4,686,979	33,960,967
Other taxes	13,095,121	-	6,155,718	19,250,839
Licenses and permits	923,125	-	-	923,125
Fines and forfeits	1,122,485	-	-	1,122,485
Intergovernmental	3,763,506	104	13,202,826	16,966,436
Charges for services	12,205,412	-	2,108,796	14,314,208
Special assessments	-	-	852,395	852,395
Lease income	3,655,490	173,350	-	3,828,840
Investment income	1,748,730	676,837	1,159,579	3,585,146
Miscellaneous	1,892,987	28,809	187,730	2,109,526
<b>Total Revenues</b>	<b>104,332,329</b>	<b>879,100</b>	<b>28,354,023</b>	<b>133,565,452</b>
<b>Expenditures:</b>				
Current:				
General government	6,713,939	-	1,240,000	7,953,939
Public safety	71,209,683	-	2,061,485	73,271,168
Public works	12,321,692	-	6,836,081	19,157,773
Community services	9,896,106	-	2,382,369	12,278,475
Community development	4,008,120	882,668	496,062	5,386,850
Capital outlay	231,525	-	7,923,709	8,155,234
Debt service:				
Principal retirements	536,335	-	2,281,024	2,817,359
Interest and fiscal charges	94,017	-	2,930,639	3,024,656
<b>Total Expenditures</b>	<b>105,011,417</b>	<b>882,668</b>	<b>26,151,369</b>	<b>132,045,454</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(679,088)</b>	<b>(3,568)</b>	<b>2,202,654</b>	<b>1,519,998</b>
<b>Other Financing Sources (Uses):</b>				
Sale of capital assets	4,135,540	-	-	4,135,540
Transfers in	2,102,550	689,465	1,648,730	4,440,745
Transfers (out)	(2,249,405)	-	(2,802,340)	(5,051,745)
<b>Total Other Financing Sources (Uses)</b>	<b>3,988,685</b>	<b>689,465</b>	<b>(1,153,610)</b>	<b>3,524,540</b>
<b>Net Change in Fund Balance</b>	<b>3,309,597</b>	<b>685,897</b>	<b>1,049,044</b>	<b>5,044,538</b>
<b>Fund Balances:</b>				
Beginning of Year	33,779,102	44,301,476	47,259,713	125,340,291
End of Year	<u>\$ 37,088,699</u>	<u>\$ 44,987,373</u>	<u>\$ 48,308,757</u>	<u>\$ 130,384,829</u>

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, 2020**

**Net change in fund balances - total governmental funds:** \$ 5,044,538

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	\$ 8,155,234	
Depreciation, net of \$2,699,213 from Internal Service Funds	(12,198,682)	
Contributed capital assets	<u>1,854,305</u>	
		(2,189,143)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 10,739,197

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 change in net position	\$ 1,578,844	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>341,450</u>	
		1,920,294

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 compensated absences	\$ (446,289)	
Change in pension liability	(14,933,815)	
Principal retirements	2,817,359	
Accrued interest	<u>493,273</u>	
		<u>(12,069,472)</u>

**Change in net position of governmental activities** \$ 3,445,414

**CITY OF ESCONDIDO**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2020**

ASSETS	Major Funds			Governmental Activities
	Water	Wastewater	Total	Internal Service Funds
<b>Current Assets:</b>				
Cash and investments	\$ 33,877,133	\$ 42,101,827	\$ 75,978,960	\$ 29,930,613
Receivables (Net):				
Accounts	9,106,265	2,653,601	11,759,866	52,190
Interest	111,916	152,610	264,526	110,061
Loans	-	68,515	68,515	-
Due from other governments	100,013	429,454	529,467	-
Inventory	-	2,197	2,197	525,592
Deposits	-	-	-	312,600
<b>Total Current Assets</b>	<b>43,195,327</b>	<b>45,408,204</b>	<b>88,603,531</b>	<b>30,931,056</b>
<b>Noncurrent Assets:</b>				
Restricted cash and investments	14,859,530	806,120	15,665,650	-
Loans receivables	-	305,766	305,766	-
Capital assets:				
Not being depreciated	9,724,287	32,305,783	42,030,070	
Being depreciated, net	114,342,948	159,437,602	273,780,550	9,304,759
<b>Total Noncurrent Assets</b>	<b>138,926,765</b>	<b>192,855,271</b>	<b>331,782,036</b>	<b>9,304,759</b>
<b>Total Assets</b>	<b>182,122,092</b>	<b>238,263,475</b>	<b>420,385,567</b>	<b>40,235,815</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions	2,615,946	2,908,330	5,524,276	1,302,082
Deferred loss on refundings	-	931,742	931,742	-
<b>Total Deferred Outflows of Resources</b>	<b>2,615,946</b>	<b>3,840,072</b>	<b>6,456,018</b>	<b>1,302,082</b>

**CITY OF ESCONDIDO**  
**Statement of Net Position (Continued)**  
**Proprietary Funds**  
**June 30, 2020**

	Major Funds		Total	Governmental Activities
	Water	Wastewater		Internal Service Funds
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	3,317,476	2,738,086	6,055,562	298,702
Retention payable	5,933,258	675,055	6,608,313	-
Accrued expenses	318,065	321,378	639,443	196,105
Accrued interest	862,681	612,626	1,475,307	-
Long-term debt, due within one year	2,134,761	4,058,579	6,193,340	3,887,548
<b>Total Current Liabilities</b>	<b>12,566,241</b>	<b>8,405,724</b>	<b>20,971,965</b>	<b>4,382,355</b>
<b>Noncurrent Liabilities:</b>				
Deposits payable	590,902	144,071	734,973	-
Aggregate net pension liabilities	19,906,901	22,719,302	42,626,203	10,706,977
Long-term debt, due in more than one year	79,319,122	54,886,345	134,205,467	14,632,291
<b>Total Noncurrent Liabilities</b>	<b>99,816,925</b>	<b>77,749,718</b>	<b>177,566,643</b>	<b>25,339,268</b>
<b>Total Liabilities</b>	<b>112,383,166</b>	<b>86,155,442</b>	<b>198,538,608</b>	<b>29,721,623</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions	354,479	397,074	751,553	-
Deferred gain on refundings	528,593	-	528,593	175,563
<b>Total Deferred Inflows of Resources</b>	<b>883,072</b>	<b>397,074</b>	<b>1,280,146</b>	<b>175,563</b>
<b>NET POSITION</b>				
Net investment in capital assets	47,044,485	137,701,640	184,746,125	9,119,713
Unrestricted	24,427,315	17,849,391	42,276,706	2,520,998
<b>Total Net Position</b>	<b>\$ 71,471,800</b>	<b>\$ 155,551,031</b>	<b>227,022,831</b>	<b>\$ 11,640,711</b>
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			(941,972)	
Net position of business-type activities			<u>\$ 226,080,859</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, 2020**

	Business-Type Activities			Governmental
	Water	Wastewater	Total	Activities Internal Service Funds
<b>Operating Revenues:</b>				
Charges for services	\$ 60,212,236	\$ 35,974,920	\$ 96,187,156	\$ 32,551,212
<b>Total Operating Revenues</b>	<b>60,212,236</b>	<b>35,974,920</b>	<b>96,187,156</b>	<b>32,551,212</b>
<b>Operating Expenses:</b>				
Personnel services	12,917,876	13,613,523	26,531,399	6,374,334
Purchased water	23,055,757	-	23,055,757	-
Administrative expenses	6,397,646	2,381,800	8,779,446	2,054,974
Benefit claims	-	-	-	1,932,580
Supplies	3,759,032	1,349,700	5,108,732	285,574
Repairs and maintenance	2,371,288	2,314,967	4,686,255	2,249,580
Depreciation	3,777,402	6,016,167	9,793,569	2,699,213
Utilities	2,956,600	3,141,359	6,097,959	1,363,128
Fuel	-	-	-	1,148,642
Professional services	983,030	3,934,331	4,917,361	4,831,175
Insurance premiums	565,075	457,595	1,022,670	12,520,391
Rent	464,682	281,603	746,285	382
Other	494,000	736,613	1,230,613	(282,224)
<b>Total Operating Expenses</b>	<b>57,742,388</b>	<b>34,227,658</b>	<b>91,970,046</b>	<b>35,177,749</b>
<b>Operating Income (Loss)</b>	<b>2,469,848</b>	<b>1,747,262</b>	<b>4,217,110</b>	<b>(2,626,537)</b>

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, 2020**

	Business-Type Activities			Governmental Activities Internal Service Funds
	Water	Wastewater	Total	
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	1,300,645	1,659,850	2,960,495	1,075,264
Rents and concessions	944,470	-	944,470	-
Interest and fiscal charges	(4,848,978)	(2,127,805)	(6,976,783)	(21,434)
Miscellaneous	862,517	171,374	1,033,891	1,664,784
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(1,741,346)</b>	<b>(296,581)</b>	<b>(2,037,927)</b>	<b>2,718,614</b>
<b>Income Before Transfers and Capital Contributions</b>	<b>728,502</b>	<b>1,450,681</b>	<b>2,179,183</b>	<b>92,077</b>
Transfers in	-	-	-	806,000
Transfers (out)	-	(195,000)	(195,000)	-
Capital Contributions:				
Connection fees	424,040	536,728	960,768	-
Intergovernmental	434,598	3,829,540	4,264,138	-
Developer contributions	997,582	734,036	1,731,618	680,767
<b>Total Transfers and Capital Contributions</b>	<b>1,856,220</b>	<b>4,905,304</b>	<b>6,761,524</b>	<b>1,486,767</b>
<b>Changes in Net Position</b>	<b>2,584,722</b>	<b>6,355,985</b>	<b>8,940,707</b>	<b>1,578,844</b>
<b>Net Position at Beginning of Year</b>	<b>68,887,078</b>	<b>149,195,046</b>	<b>218,082,124</b>	<b>10,061,867</b>
<b>Net Position at End of Year</b>	<b>\$ 71,471,800</b>	<b>\$ 155,551,031</b>	<b>\$ 227,022,831</b>	<b>\$ 11,640,711</b>
Change in Net Position			\$ 8,940,707	
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			(341,450)	
Change in net position of business-type activities			<u>\$ 8,599,257</u>	

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2020**

	Business-Type Activities			Governmental Activities Internal Service Funds
	Water	Wastewater	Total	
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 59,366,553	\$ 36,099,171	\$ 95,465,724	\$ 32,552,974
Cash paid to employees for services	(11,465,750)	(11,905,107)	(23,370,857)	(7,622,187)
Cash paid to suppliers for goods or services	(38,569,397)	(13,829,625)	(52,399,022)	(24,439,254)
Cash for rents and concessions	944,470	-	944,470	-
Cash from other sources	862,517	228,930	1,091,447	1,508,957
<b>Net Cash Provided by Operating Activities</b>	<b>11,138,393</b>	<b>10,593,369</b>	<b>21,731,762</b>	<b>2,000,490</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Cash received from (paid to) other funds	-	(195,000)	(195,000)	806,000
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>-</b>	<b>(195,000)</b>	<b>(195,000)</b>	<b>806,000</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Purchase and construction of capital assets	(2,717,182)	(15,364,530)	(18,081,712)	(3,102,631)
Construction in progress reimbursement	434,598	3,500,684	3,935,282	-
Sale of capital assets	-	-	-	155,827
Payments on connection rights	414,350	536,728	951,078	-
Cash received for connection fees	997,582	734,036	1,731,618	-
Proceeds from loans payable	14,850,000	6,418,693	21,268,693	-
Capital lease payment	-	-	-	(190,374)
Principal payments on bonds	(2,430,000)	(1,715,000)	(4,145,000)	-
Interest payments on bonds	(292,724)	(1,856,334)	(2,149,058)	-
Principal payments on loans	(590,700)	(1,933,905)	(2,524,605)	(98,256)
Interest payments on loans	(249,535)	(409,200)	(658,735)	(10,929)
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<b>10,416,389</b>	<b>(10,088,828)</b>	<b>327,561</b>	<b>(3,246,363)</b>
<b>Cash Flows from Investing Activities:</b>				
Investment income received	1,320,261	1,731,224	3,051,485	1,116,026
<b>Net Cash Provided by Investing Activities</b>	<b>1,320,261</b>	<b>1,731,224</b>	<b>3,051,485</b>	<b>1,116,026</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>22,875,043</b>	<b>2,040,765</b>	<b>24,915,808</b>	<b>676,153</b>
<b>Cash and cash equivalents:</b>				
Beginning of year	25,861,620	40,867,182	66,728,802	29,254,460
End of year	<u>\$ 48,736,663</u>	<u>\$ 42,907,947</u>	<u>\$ 91,644,610</u>	<u>\$ 29,930,613</u>
<b>Reconciliation of Cash Equivalents to the Statement of Net Position:</b>				
Cash and investments	\$ 33,877,133	\$ 42,101,827	\$ 75,978,960	\$ 29,930,613
Restricted cash and investments	14,859,530	806,120	15,665,650	-
<b>Total cash and cash equivalents</b>	<u>\$ 48,736,663</u>	<u>\$ 42,907,947</u>	<u>\$ 91,644,610</u>	<u>\$ 29,930,613</u>

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2020**

	Business-Type Activities			Governmental Activities Internal Service Funds
	Water	Wastewater	Total	
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ 2,469,848	\$ 1,747,262	\$ 4,217,110	\$ (2,626,537)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	3,777,402	6,016,167	9,793,569	2,699,213
Pension expense	1,306,807	1,555,303	2,862,110	710,166
Cash from rent and concessions	944,470	-	944,470	-
Cash from other sources	862,517	171,374	1,033,891	1,508,957
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:				
Accounts receivable	(821,537)	124,251	(697,286)	1,762
Inventories	-	4,572	4,572	3,690
Loans receivable	-	57,556	57,556	-
Accounts payable	1,230,521	514,055	1,744,576	(653,358)
Retentions payable	1,247,192	249,716	1,496,908	-
Accrued expenses	50,394	62,392	112,786	36,360
Compensated absences	94,925	90,721	185,646	58,437
Customer deposits	(24,146)	-	(24,146)	-
Estimated claims payable	-	-	-	261,800
Total adjustments	<u>8,668,545</u>	<u>8,846,107</u>	<u>17,514,652</u>	<u>4,627,027</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 11,138,393</u>	<u>\$ 10,593,369</u>	<u>\$ 21,731,762</u>	<u>\$ 2,000,490</u>
<b>Noncash Investing, Capital and Financing Activities:</b>				
Contributed property, plant and equipment			\$ -	\$ 680,767
Bond amortization	(2,535,619)	271,730	(2,263,889)	-
<b>Total noncash investing, capital and financing activities</b>	<u>\$ (2,535,619)</u>	<u>\$ 271,730</u>	<u>\$ (2,263,889)</u>	<u>\$ 680,767</u>

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2020**

	Agency Funds	Private Purpose Trust Fund Successor Agency of the Former CDC
<b>ASSETS</b>		
Cash and investments	\$ 1,248,843	\$ 7,740,364
Cash and investments with fiscal agent	353,649	-
Receivables:		
Interest	2,632	5,248
Taxes	7,650	-
<b>Total Assets</b>	<b>\$ 1,612,774</b>	<b>7,745,612</b>
<b>LIABILITIES</b>		
Accounts payable	\$ 1,020	-
Deposits payable	805,413	-
Due to bondholders	806,341	-
Long-term liabilities:		
Due within one year	-	7,628,660
Due in more than one year	-	3,611,380
<b>Total Liabilities</b>	<b>\$ 1,612,774</b>	<b>11,240,040</b>
<b>NET POSITION</b>		
Held in trust for other purposes		(3,494,428)
<b>Total Net Position</b>		<b>\$ (3,494,428)</b>

**CITY OF ESCONDIDO**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2020**

	<u>Private Purpose Trust Fund Successor Agency of the Former CDC</u>
<b>ADDITIONS:</b>	
Taxes	\$ 6,524,770
Interest and change in fair value of investments	19,695
<b>Total Additions</b>	<u>6,544,465</u>
<b>DEDUCTIONS:</b>	
Administrative expenses	246,875
Interest expense	170,426
<b>Total Deductions</b>	<u>417,301</u>
<b>Changes in Net Position</b>	6,127,164
<b>NET POSITION:</b>	
Beginning of year	<u>(9,621,592)</u>
End of year	<u>\$ (3,494,428)</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2020**

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**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, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

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, 2020**

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**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 Finance 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 a reserve stabilization arrangement to be used 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 is required to add or spend the funds and, if used, the method for replenishing deficiencies including the source of funding and time period of replenishment to occur will be defined in the resolution. At June 30, 2020, the balance totaled \$17,921,319.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

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**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, 2020, the City implemented the following Governmental Accounting Standards Board (GASB) standards:

**GASB Statement No. 84** – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Application of this statement did not have a significant effect on the City's financial statements.

**GASB Statement No. 95** – In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Application of this statement did not have a material effect on the City's financial statements for the fiscal year ending June 30, 2020.

**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, 2020.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 2 – Stewardship, Compliance and Accountability (Continued)**

**B. Deficit Fund Equity**

The following funds reported a deficit fund balance/net position as of June 30, 2020:

Fund	Fund Type	Amount
Unrestricted Net Position	Governmental Activities	\$(133,063,895)
Community Development Block Grant	Special Revenue Fund	(163,089)
Miscellaneous Grants	Special Revenue Fund	(1,119,380)
Golf Course	Debt Service Fund	(1,287)
County Transportation Street Projects	Capital Projects Fund	(232,279)
Building Maintenance	Internal Service Fund	(1,254,410)
Network and Systems Administration	Internal Service Fund	(1,727,482)
Workers' Compensation	Internal Service Fund	(2,704,047)

At June 30, 2020, the City had an unrestricted net position deficit of \$(133,063,895) on the Government-wide Statement of Net Position that was increased due to the recording of the Net Pension Liability. The City expects to eliminate the deficit via pension contributions as required by the City's pension administrator (CalPERS).

The (\$163,089) deficit in the Community Development Block Grant fund, (\$1,119,380) in the Miscellaneous Grants fund, and (\$232,279) in the County Transportation Street Projects fund are the result of unreimbursed funds and will be eliminated with future grant reimbursements.

The (\$1,287) deficit in the Golf Course Debt Service fund is due to the timing of a transfer from the General Fund and will be eliminated with future transfers.

Internal service fund deficits for the Building Maintenance, Network and Systems Administration, and Workers Compensation funds are due to the impact from recording the Net Pension Liability items. The deficits are expected to be funded by future internal service charges to other City funds.

**Note 3 – Cash and Investments**

Cash and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

	Governmental Activities	Business-type Activities	Component Unit	Fiduciary Funds	Total
Cash and investments	\$ 99,613,197	\$ 75,978,960	\$ 2,046,179	\$ 8,989,207	\$ 186,627,543
Investment in Section 115 Trust	13,572,027	-	-	-	13,572,027
Cash and investments with fiscal agent	81	15,665,650	-	353,649	16,019,380
<b>Total</b>	<b>\$ 113,185,305</b>	<b>\$ 91,644,610</b>	<b>\$ 2,046,179</b>	<b>\$ 9,342,856</b>	<b>\$ 216,218,950</b>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 3 – Cash and Investments (Continued)**

At June 30, 2020, 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, 2020:

	Fair Value	Measurement Input			Uncategorized
		Level 1	Level 2	Level 3	
Cash on hand	\$ 13,811	\$ -	\$ -	\$ -	\$ 13,811
Demand deposits	7,647,964	-	-	-	7,647,964
Investments:					
U. S. Treasury Obligations	22,802,884	-	22,802,884	-	-
U. S. Corporate Bonds	22,324,110	-	22,324,110	-	-
U. S. Municipal Bonds	3,471,382	-	3,471,382	-	-
Supranational Obligations	2,724,000	-	2,724,000	-	-
Federal Agency Securities	36,661,652	-	36,661,652	-	-
Negotiable Certificates of Deposit	5,863,544	-	-	-	5,863,544
Placement Service Deposits	15,240,044	-	-	-	15,240,044
State Investment Pool (LAIF)	69,878,152	-	-	-	69,878,152
Subtotal	178,965,768	-	87,984,028	-	90,981,740
Held by fiscal agent:					
U.S. Treasury Obligations	15,203,832	-	15,203,832	-	-
Money Market Funds	815,548	-	815,548	-	-
Subtotal	16,019,380	-	16,019,380	-	-
Investment in Section 115 Trust	13,572,027	-	-	-	13,572,027
<b>Total</b>	<b>\$ 216,218,950</b>	<b>\$ -</b>	<b>\$ 104,003,408</b>	<b>\$ -</b>	<b>\$ 112,215,542</b>

**A. Demand Deposits**

The carrying amount of the City's cash deposits were \$6,418,369 at June 30, 2020. Bank balances before reconciling items were \$4,454,408 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, 2020**

**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	30%
Municipal Securities	Yes	5 years	40%	5%
Banker's Acceptance	Yes	180 days	30%	5%
Commercial Paper	Yes	270 days	25%	5%
Negotiable Certificates of Deposit	Yes	5 years	30%	5%
Placement Service Deposits	Yes	5 years	30%	30%
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	5%
Mutual Funds	No	N/A	20%	10%
Money Market Funds	Yes	N/A	20%	20%
Mortgage Pass-Through/Asset Backed Securities	Yes	5 years	20%	5%
Local Government Investment Pools	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	\$65 million	None
Supranational Obligations	Yes	5 years	30%	30%

\*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, 2020**

**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, 2020, the City had \$69,878,152 invested in LAIF, which had invested 3.37% 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, 2020. 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, 2020**

**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
<b>Investments:</b>				
U. S. Treasury Obligations	\$ 22,802,884	\$ 6,794,795	\$ 6,248,665	\$ 9,759,424
U. S. Corporate Bonds	22,324,110	-	17,948,553	4,375,557
U. S. Municipal Bonds	3,471,382	-	2,251,760	1,219,622
Supranational Obligations	2,724,000	2,724,000	-	-
Federal Agency Securities	36,661,652	12,378,142	16,167,855	8,115,655
Negotiable Certificates of Deposit	5,863,544	5,863,544	-	-
Placement Service Deposits	15,240,044	15,240,044	-	-
State Investment Pool (LAIF)	69,878,152	69,878,152	-	-
Subtotal	178,965,768	112,878,677	42,616,833	23,470,258
<b>Held by fiscal agent:</b>				
U.S. Treasury Obligations	15,203,832	15,203,832	-	-
Money Market Funds	815,548	815,548	-	-
Subtotal	16,019,380	16,019,380	-	-
Investment in Section 115 Trust	13,572,027	13,572,027	-	-
<b>Total</b>	<b>\$ 208,557,175</b>	<b>\$ 142,470,084</b>	<b>\$ 42,616,833</b>	<b>\$ 23,470,258</b>

**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, 2020**

**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	A+ to A- / A1 to A3	Not Rated
<b>Investments:</b>								
U. S. Treasury Obligations	\$ 22,802,884	N/A	\$ -	\$ -	\$ 22,802,884	\$ -	\$ -	\$ -
U. S. Corporate Bonds	22,324,110	A	-	-	985,986	3,135,630	14,864,104	3,338,390
U. S. Municipal Bonds	3,471,382	A	-	254,962	864,904	357,948	613,870	1,379,698
Supranational Obligations	2,724,000	A	-	2,724,000	-	-	-	-
Federal Agency Securities	36,661,652	N/A	-	-	36,661,652	-	-	-
Negotiable Certificates of Deposit	5,863,544	N/A	5,863,544	-	-	-	-	-
Placement Service Deposits	15,240,044	N/A	-	-	-	-	-	15,240,044
State Investment Pool (LAIF)	69,878,152	N/A	-	-	-	-	-	69,878,152
Subtotal	178,965,768		5,863,544	2,978,962	61,315,426	3,493,578	15,477,974	89,836,284
<b>Held by fiscal agent:</b>								
U.S. Treasury Obligations	15,203,832	N/A	-	-	-	-	-	15,203,832
Money Market Funds	815,548	N/A	-	-	-	-	-	815,548
Subtotal	16,019,380		-	-	-	-	-	16,019,380
Investment in Section 115 Trust	13,572,027	N/A	-	-	-	-	-	13,572,027
<b>Total</b>	<b>\$ 208,557,175</b>		<b>\$ 5,863,544</b>	<b>\$ 2,978,962</b>	<b>\$ 61,315,426</b>	<b>\$ 3,493,578</b>	<b>\$ 15,477,974</b>	<b>\$ 119,427,691</b>

**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 Home Loan Mortgage Corp.	Federal Agency Securities	\$ 9,254,442
Federal National Mortgage Association	Federal Agency Securities	15,792,821
U.S. Treasury	U.S. Treasury Obligations	22,802,884

**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, 2020**

**Note 4 – Accounts Receivable**

As of June 30, 2020, the accounts receivable are categorized as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 5,153,550	\$ 12,162,363	\$ 17,315,913
Interest receivable	16,317,962	264,526	16,582,488
Taxes receivable	8,347,518	-	8,347,518
<b>Total receivables</b>	29,819,030	12,426,889	42,245,919
Less: Allowance for uncollectible amounts	(1,677,814)	(402,497)	(2,080,311)
<b>Total receivables, net of allowance</b>	<u>\$ 28,141,216</u>	<u>\$ 24,451,281</u>	<u>\$ 40,165,608</u>

Governmental and Business-type Activities receivables are shown net of an allowance for uncollectibles. 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, 2020 are \$252,298 for the Water Fund and \$150,199 for the Wastewater Fund.

**Note 5 – Notes and Loans Receivable**

At June 30, 2020, the loans receivable was reported in the accompanying basic financial statements as follows:

	Governmental Activities	Business-type Activities	Total
General Fund	\$ 11,000,000	\$ -	\$ 11,000,000
Successor Agency Housing Fund	35,107,543	-	35,107,543
HOME Fund	17,233,004	-	17,233,004
Community Development Block Grant Fund	231,659	-	231,659
Public Facilities Capital Projects Fund	266,048	-	266,048
Wastewater Enterprise Fund	-	374,281	374,281
<b>Total</b>	<u>\$ 63,838,254</u>	<u>\$ 374,281</u>	<u>\$ 64,212,535</u>

The General Fund has an outstanding loan receivable due from the Escondido Senior Housing Corporation. In exchange for the sale of City owned property valued at \$14,900,000 million, the General Fund received \$4,100,000 in cash payments and a promissory loan agreement for the remaining balance of \$10,800,000 which will be repaid from residual receipts over 55 years. As of June 30, 2020, the notes receivable balance was \$10,800,000, and unavailable revenue of \$10,800,000 is reported as a deferred inflow of resources.

The General Fund has an outstanding loan receivable due from the Vineyard Golf Course, funds were provided as part of the construction of the golf course. The loan is to be paid back at \$40,000 per year once the golf course reaches a level of 240,000 rounds played in a 36 consecutive month period. As of June 30, 2020, the notes receivable balance was \$200,000.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 5 – Notes and Loans Receivable (Continued)**

On June 30, 2020, the City has outstanding loans of \$35,107,543 recorded in the Successor Agency Housing Fund; \$17,233,004 recorded in the HOME Fund; and \$231,659 recorded in Community Development Block Grant Fund as a result of programs designed to encourage the 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. These loans have been offset by restricted or committed fund balances, as they are not expected to be repaid immediately.

The Public Facilities Capital Projects Fund has loaned the California Center for the Arts Foundation \$361,500 to finance the purchase of equipment and furnishings for the Conference Center. The balance outstanding at June 30, 2020 is \$266,048.

As part of the development of an ice arena, health club, and a co-energy generation facility, the Wastewater Enterprise fund agreed that the sewer connection fee of \$1,241,405 would be paid incrementally over a 30-year period with an interest rate of 6%. The balance outstanding at June 30, 2020 is \$374,281 including principal and interest.

**Note 6 – Interfund Transactions**

**A. Due To and From Other Funds**

At June 30, 2020, due from and to other funds balances are as follows:

<b>Due To Other Funds</b>	<b>Due From Other Funds</b>		
	General Fund	Nonmajor Governmental Funds	Total
Private Purpose Trust Fund:			
Successor Agency of the Former CDC	\$ 10,221,613	\$ 1,018,427	\$ 11,240,040
<b>Total</b>	<b>\$ 10,221,613</b>	<b>\$ 1,018,427</b>	<b>\$ 11,240,040</b>

The Former Community Development Commission had received monies from the General Fund and from the Street Special Revenue Fund for use in its operations and capital improvement projects. For more information, see Note 8C.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 6 – Interfund Transactions (Continued)**

**B. Advances To and From Other Funds**

At June 30, 2020, advances to and from other fund balances are as follows:

<b>Advances To Other Funds</b>	<b>Advances From Other Funds</b>	<b>Amounts</b>
Street Improvement Capital Projects Fund - Nonmajor Governmental Funds	General Fund	\$ 200,000

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.

**C. Transfers In and Out**

For the year ended June 30, 2020, interfund transfers are as follows:

<b>Transfer Out</b>	<b>Transfers In</b>				<b>Total</b>
	General Fund	Successor Agency Housing	Nonmajor Governmental Funds	Internal Service Funds	
General Fund	\$ -	\$ 689,465	\$ 753,940	\$ 806,000	\$ 2,249,405
Nonmajor Governmental	2,102,550	-	699,790	-	2,802,340
Enterprise:					
Water	-	-	195,000	-	195,000
<b>Total</b>	<b>\$ 2,102,550</b>	<b>\$ 689,465</b>	<b>\$ 1,648,730</b>	<b>\$ 806,000</b>	<b>\$ 5,246,745</b>

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.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 7 – Capital Assets**

**A. Governmental Activities**

Summary of changes in capital assets for the governmental activities for the year ended June 30, 2020, is as follows:

	Balance July 1, 2019	Transfers of CIP	Additions	Deletions	Balance June 30, 2020
<b>Capital assets, not being depreciated:</b>					
Art and historical treasures	\$ 9,532,194	\$ -	\$ -	\$ -	\$ 9,532,194
Land	52,704,126	-	-	-	52,704,126
Construction in progress	12,793,768	(4,437,544)	8,861,015	-	17,217,239
<b>Total capital assets, not being depreciated</b>	<b>75,030,088</b>	<b>(4,437,544)</b>	<b>8,861,015</b>	<b>-</b>	<b>79,453,559</b>
<b>Capital assets, being depreciated:</b>					
Land improvements	40,046,270	1,625,962	-	-	41,672,232
Buildings	222,922,974	-	261,690	-	223,184,664
Machinery and equipment	31,692,312	698,258	402,918	(144,862)	32,648,626
Motorized vehicles	28,625,423	-	1,732,245	(717,974)	29,639,694
Infrastructure	316,789,319	2,113,324	2,535,071	-	321,437,714
Golf Course	4,326,835	-	-	-	4,326,835
Radio Rights	3,230,225	-	-	-	3,230,225
<b>Total capital assets, being depreciated</b>	<b>647,633,358</b>	<b>4,437,544</b>	<b>4,931,924</b>	<b>(862,836)</b>	<b>656,139,990</b>
<b>Less accumulated depreciation</b>					
Land improvements	(37,538,886)	-	(395,270)	-	(37,934,156)
Buildings	(125,920,358)	-	(5,673,570)	-	(131,593,928)
Machinery and equipment	(26,603,868)	-	(1,565,996)	144,862	(28,025,002)
Motorized vehicles	(22,441,189)	-	(2,287,648)	717,974	(24,010,863)
Infrastructure	(214,964,285)	-	(4,669,628)	-	(219,633,913)
Golf Course	(2,403,205)	-	(144,272)	-	(2,547,477)
Radio Rights	(484,533)	-	(161,511)	-	(646,044)
<b>Total accumulated depreciation</b>	<b>(430,356,324)</b>	<b>-</b>	<b>(14,897,895)</b>	<b>862,836</b>	<b>(444,391,383)</b>
<b>Total capital assets, being depreciated, net</b>	<b>217,277,034</b>	<b>4,437,544</b>	<b>(9,965,971)</b>	<b>-</b>	<b>211,748,607</b>
<b>Total Governmental Activities capital assets, net</b>	<b>\$ 292,307,122</b>	<b>\$ -</b>	<b>\$ (1,104,956)</b>	<b>\$ -</b>	<b>\$ 291,202,166</b>

Depreciation expense was charged to the following functions:

General government	\$ 3,646,280
Public safety	2,770,854
Public works	4,898,407
Community services	755,136
Community development	128,005
Internal service funds	2,699,213
<b>Total</b>	<b>\$ 14,897,895</b>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 7 – Capital Assets (Continued)**

**B. Business-type Activities**

Summary of changes in capital assets for the business-type activities for the year ended June 30, 2020, is as follows:

	Balance July 1, 2019	Transfers of CIP	Additions	Deletions	Balance June 30, 2020
<b>Capital assets, not being depreciated:</b>					
Land	\$ 3,138,397	\$ -	\$ -	\$ -	\$ 3,138,397
Construction in progress	30,583,932	(7,106,878)	15,414,619	-	38,891,673
<b>Total capital assets, not being depreciated</b>	<u>33,722,329</u>	<u>(7,106,878)</u>	<u>15,414,619</u>	<u>-</u>	<u>42,030,070</u>
<b>Capital assets, being depreciated:</b>					
Land improvements	1,092,101	-	-	-	1,092,101
Buildings	31,705,883	-	-	-	31,705,883
Machinery and equipment	11,720,066	-	1,079,235	(48,679)	12,750,622
Water system	166,364,361	74,162	997,582	-	167,436,105
Electrical system	3,609,179	-	-	-	3,609,179
Sewer system	207,831,202	6,937,884	733,786	-	215,502,872
Recycled water system	24,163,391	-	-	-	24,163,391
<b>Total capital assets, being depreciated</b>	<u>446,486,183</u>	<u>7,012,046</u>	<u>2,810,603</u>	<u>(48,679)</u>	<u>456,260,153</u>
<b>Less accumulated depreciation</b>					
Land improvements	(336,221)	-	(29,823)	-	(366,044)
Buildings	(20,885,826)	-	(472,619)	-	(21,358,445)
Machinery and equipment	(9,176,598)	-	(770,565)	48,679	(9,898,484)
Water system	(53,190,525)	-	(3,316,516)	-	(56,507,041)
Electrical system	(3,334,452)	-	(49,270)	-	(3,383,722)
Sewer system	(76,542,689)	-	(4,596,575)	-	(81,139,264)
Recycled water system	(9,219,723)	-	(606,880)	-	(9,826,603)
<b>Total accumulated depreciation</b>	<u>(172,686,034)</u>	<u>-</u>	<u>(9,842,248)</u>	<u>48,679</u>	<u>(182,479,603)</u>
<b>Total capital assets, being depreciated, net</b>	<u>273,800,149</u>	<u>7,012,046</u>	<u>(7,031,645)</u>	<u>-</u>	<u>273,780,550</u>
<b>Total Business-type Activities capital assets, net</b>	<u>\$ 307,522,478</u>	<u>\$ (94,832)</u>	<u>\$ 8,382,974</u>	<u>\$ -</u>	<u>\$ 315,810,620</u>

Depreciation expense was charged to the following functions:

Water	\$ 3,826,081
Wastewater	<u>6,016,167</u>
<b>Total</b>	<u>\$ 9,842,248</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 7 – Capital Assets (Continued)**

**C. Component Unit**

Summary of changes in capital assets for the component unit for the year ended June 30, 2020, is as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
<b>Capital assets, being depreciated:</b>				
Leasehold improvements	\$ 168,945	\$ -	\$ (200)	\$ 168,745
Machinery and equipment	969,661	80,512	-	1,050,173
<b>Total capital assets, being depreciated</b>	<u>1,138,606</u>	<u>80,512</u>	<u>(200)</u>	<u>1,218,918</u>
<b>Less accumulated depreciation</b>				
Leasehold improvements	(17,279)	(1,570)	-	(18,849)
Machinery and equipment	(703,116)	(49,599)	-	(752,715)
<b>Total accumulated depreciation</b>	<u>(720,395)</u>	<u>(51,169)</u>	<u>-</u>	<u>(771,564)</u>
<b>Total capital assets, being depreciated, net</b>	<u>418,211</u>	<u>29,343</u>	<u>(200)</u>	<u>447,354</u>
<b>Total Component Unit capital assets, net</b>	<u>\$ 418,211</u>	<u>\$ 29,343</u>	<u>\$ (200)</u>	<u>\$ 447,354</u>

Depreciation expense for the year ended June 30, 2020 was \$51,169.

**Note 8 – Long-Term Debt**

**A. Governmental Activities**

Summary of changes in long-term liabilities for Governmental Activities as of June 30, 2020, are as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Compensated absences	\$ 6,853,951	\$ 2,059,305	\$ (1,554,578)	\$ 7,358,678	\$ 1,801,767	\$ 5,556,911
Claims payable	17,613,800	3,332,401	(3,070,601)	17,875,600	3,575,120	14,300,480
Loans payable	2,674,999	-	(416,661)	2,258,338	427,025	1,831,313
Capital leases	1,892,577	-	(468,820)	1,423,757	482,062	941,695
2015 Refunding General Obligation Bonds	56,810,000	-	(1,965,000)	54,845,000	2,065,000	52,780,000
Unamortized bond premium	7,392,770	-	(430,647)	6,962,123	-	6,962,123
2013A Lease Revenue Bonds	3,515,000	-	(245,000)	3,270,000	250,000	3,020,000
Unamortized bond discount	(6,423)	-	547	(5,876)	-	(5,876)
<b>Total</b>	<u>\$ 96,746,674</u>	<u>\$ 5,391,706</u>	<u>\$ (8,150,760)</u>	<u>\$ 93,987,620</u>	<u>\$ 8,600,974</u>	<u>\$ 85,386,646</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**A. Governmental Activities (Continued)**

**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, 2020, is \$7,358,678. This liability will be paid in future years from future resources primarily from the General Fund.

**Claims Payable**

The balance of claims payable at June 30, 2020, is \$17,875,600. For more information, see Note 10.

**Loans Payable**

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
California Energy Commission Loan	\$ 299,681	\$ -	\$ (95,995)	\$ 203,686	\$ 99,851	\$ 103,835
San Diego Gas & Electric Loan	22,658	-	(11,670)	10,988	9,558	1,430
County of San Diego Loan	2,352,660	-	(308,996)	2,043,664	317,615	1,726,049
	<u>\$ 2,674,999</u>	<u>\$ -</u>	<u>\$ (416,661)</u>	<u>\$ 2,258,338</u>	<u>\$ 427,024</u>	<u>\$ 1,831,314</u>

**California Energy Commission Loan**

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, 2020, is \$213,847.

The annual debt service requirements are as follows:

<b>Year Ended</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30,</b>			
2021	\$ 99,851	\$ 7,072	\$ 106,923
2022	103,835	3,089	106,924
Total	<u>\$ 203,686</u>	<u>\$ 10,161</u>	<u>\$ 213,847</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**A. Governmental Activities (Continued)**

**Loans Payable (Continued)**

**San Diego Gas & Electric Loan**

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, 2020, are \$10,988.

The annual debt service requirements are as follows:

<b>Year Ended</b>	<b>Principals</b>				
	<b>June 30,</b>	<b>City Hall</b>	<b>CFA 921</b>	<b>EVCC</b>	<b>Total</b>
2021	\$	2,262	\$ 2,111	\$ 5,185	\$ 9,558
2022		566	-	864	1,430
Total	\$	2,828	\$ 2,111	\$ 6,049	\$ 10,988

**County of San Diego Loan**

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. 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, 2020, is \$2,043,664.

The annual debt service requirements are as follows:

<b>Year Ended</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30,</b>			
2021	\$ 317,615	\$ 57,018	\$ 374,633
2022	326,477	48,157	374,634
2023	335,585	39,048	374,633
2024	344,949	29,685	374,634
2025	354,573	20,062	374,635
2026	364,465	10,168	374,633
Total	\$ 2,043,664	\$ 204,138	\$ 2,247,802

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**B. Governmental Activities (Continued)**

*Capital Leases*

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Sutphen Aerial Ladder Truck	\$ 364,911	\$ -	\$ (179,865)	\$ 185,046	\$ 185,046	\$ -
Motorola Radios Equipment Lease	1,527,666	-	(288,955)	1,238,711	297,016	941,695
	<u>\$ 1,892,577</u>	<u>\$ -</u>	<u>\$ (468,820)</u>	<u>\$ 1,423,757</u>	<u>\$ 482,062</u>	<u>\$ 941,695</u>

**Sutphen Aerial Ladder Truck**

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, 2020, was \$185,046. The net carrying amount of assets acquired under the capital lease totaled \$669,420 at June 30, 2020 and is classified as motorized vehicles within capital assets. The amortization of the leased assets are included as part of depreciation expense. The future minimum lease and the net present value of these minimum lease payments as of June 30, 2020, are as follows:

Year Ended June 30,	Principal	Interest	Total
2021	\$ 185,046	\$ 5,329	\$ 190,375
Total	<u>\$ 185,046</u>	<u>\$ 5,329</u>	<u>\$ 190,375</u>

**Motorola Radios Equipment Lease**

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, 2020, is \$1,238,711. The net carrying amount of the capital assets, classified as machinery and equipment, acquired under the capital lease totaled \$1,422,676 at June 30, 2020. The amortization of the leased assets are included as part of depreciation expense. The future minimum lease and the net present value of these minimum lease payments as of June 30, 2020, are as follows:

Year Ended June 30,	Principal	Interest	Total
2021	\$ 297,016	\$ 34,556	\$ 331,572
2022	305,302	26,271	331,573
2023	313,820	17,754	331,574
2024	322,573	8,999	331,572
Total	<u>\$ 1,238,711</u>	<u>\$ 87,579</u>	<u>\$ 1,326,290</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**A. Governmental Activities (Continued)**

**2015 Refunding General Obligation Bonds**

In May 2015, the City issued \$61,520,000 of General Obligation Refunding Bonds Series 2015 to refund the General Obligation Bonds, election 2004, Series A. The 2004 Bonds were issued to construct City fire stations, an emergency response training center, and a combined police and fire headquarters facility. The refunding decreased the total debt service payment by \$10.3 million over 22 years and resulted in an economic gain of \$7.4 million. 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, 2020, the outstanding balance of the Bonds was \$54,845,000 and unamortized bond premium was \$6,962,123.

The annual debt service requirements are as follows:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	2,390,000	2,417,000	4,807,000
2025	2,525,000	2,297,500	4,822,500
2026-2030	14,860,000	9,449,500	24,309,500
2031-2035	19,330,000	5,307,000	24,637,000
2036-2037	9,235,000	698,500	9,933,500
Total	<u>\$ 54,845,000</u>	<u>\$ 28,081,500</u>	<u>\$ 82,926,500</u>

**2013A Lease Revenue Bonds**

In March 2013, the City of Escondido issued \$4,830,000 in Lease Revenue Bonds to refund the Escondido Joint Powers Financing Authority 2001 Lease Revenue Bonds and to pay the costs of issuance of the Bonds. 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, 2020, the outstanding balance of these bonds was \$3,270,000 and unamortized bond discount was \$5,876. The annual debt service requirements are as follows:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 250,000	\$ 111,219	\$ 361,219
2022	260,000	103,568	363,568
2023	265,000	95,694	360,694
2024	275,000	87,250	362,250
2025	285,000	77,972	362,972
2026-2030	1,580,000	225,644	1,805,644
2031	355,000	7,100	362,100
Total	<u>\$ 3,270,000</u>	<u>\$ 708,447</u>	<u>\$ 3,978,447</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**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, 2020, are as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Connection rights payable	\$ 12,987,768	\$ -	\$ (9,690)	\$ 12,978,078	\$ -	\$ 12,978,078
Compensated absences	1,318,564	504,025	(318,378)	1,504,211	376,058	1,128,153
Loans payable	11,305,826	21,268,695	(2,183,441)	30,391,080	2,657,282	27,733,798
2007 Water Revenue COP	24,615,000	-	(24,615,000)	-	-	-
Unamortized bond premium	150,613	-	(150,613)	-	-	-
2012 Water Revenue Bonds	28,195,000	-	(28,195,000)	-	-	-
Unamortized bond premium	1,260,836	-	(1,260,836)	-	-	-
2019A Water Refunding Bonds	-	20,380,000	-	20,380,000	580,000	19,800,000
Unamortized bond premium	-	4,075,162	(128,094)	3,947,068	-	3,947,068
2019B Water Refunding Bonds	-	30,000,000	-	30,000,000	785,000	29,215,000
2012 Wastewater Revenue Bonds	26,345,000	-	(175,000)	26,170,000	185,000	25,985,000
Unamortized bond premium	1,439,202	-	(63,000)	1,376,202	-	1,376,202
2015A Wastewater Refunding Revenue Bonds	10,575,000	-	(1,100,000)	9,475,000	1,160,000	8,315,000
Unamortized bond premium	1,530,774	-	(213,597)	1,317,177	-	1,317,177
2015B Wastewater Refunding Revenue Bonds	3,330,000	-	(440,000)	2,890,000	450,000	2,440,000
Unamortized bond discount	(34,876)	-	4,867	(30,009)	-	(30,009)
<b>Total</b>	<b>\$ 123,018,707</b>	<b>\$ 76,227,882</b>	<b>\$ (58,847,782)</b>	<b>\$ 140,398,807</b>	<b>\$ 6,193,340</b>	<b>\$ 134,205,467</b>

**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, 2020 is \$12,978,078.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**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, 2020, is \$1,504,211.

**Loans Payable**

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Tertiary Treatment Facility Project	\$ 6,577,797	\$ -	\$ (1,848,195)	\$ 4,729,602	\$ 1,848,195	\$ 2,881,407
Gravity Float Line Capital Project	611,537	-	(116,275)	495,262	119,216	376,046
HARRF Aeration Blower Replacement Project	546,121	-	(85,709)	460,412	87,767	372,645
Alexander Area Phase II Water Line Project	1,929,022	-	(133,262)	1,795,760	136,615	1,659,145
Brine Transmission Line Project	1,491,349	3,528,589	-	5,019,938	133,769	4,886,169
Lindley Reservoir Tank Replacement Project	150,000	14,850,000	-	15,000,000	331,720	14,668,280
Recycled Water Easterly Main and Tanks Project	-	2,890,106	-	2,890,106	-	2,890,106
<b>Total</b>	<b>\$ 11,305,826</b>	<b>\$ 21,268,695</b>	<b>\$ (2,183,441)</b>	<b>\$ 30,391,080</b>	<b>\$ 2,657,282</b>	<b>\$ 27,733,798</b>

**Tertiary Treatment Facility Project**

In 1999, the City 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 for a total project cost of \$8,149,808. The second phase of the project was completed on April 1, 2003 and included two sub-loan amounts of \$16,461,971 and \$19,754,444. 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. Principal and interest payments on the loans are payable from the Wastewater Fund consisting of sewer rates, fees, and charges. The outstanding balance at June 30, 2020, is \$4,729,602.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

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**Note 8 – Long-Term Debt (Continued)**

**B. Business-Type Activities (Continued)**

**Loans Payable (Continued)**

**Tertiary Treatment Facility Project (Continued)**

The annual debt service requirements are as follows:

<b>Year Ended</b>	<b>Principals</b>				
	<b>June 30,</b>	<b>Phase I</b>	<b>Phase II</b>	<b>Phase III</b>	<b>Total</b>
2021	\$ 407,490	\$ 823,099	\$ 617,606		\$ 1,848,195
2022	-	823,098	617,606		1,440,704
2023	-	823,098	617,605		1,440,703
Total	\$ 407,490	\$ 2,469,295	\$ 1,852,817		\$ 4,729,602

**Gravity Float Line Capital Project**

In 2002, 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 Grant for Drinking Water State Revolving Funds program. The proceeds were used to construct the Gravity Float Line Capital Project. Repayment of the total amount issued of \$2,048,125 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. Principal and interest payments on the loans are payable from the Water Fund consisting of water rates, fees, and charges. The outstanding balance at June 30, 2020, is \$495,262.

The annual debt service requirements are as follows:

<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 119,216	\$ 11,703	\$ 130,919
2022	122,231	8,688	130,919
2023	125,323	5,596	130,919
2024	128,492	2,427	130,919
Total	\$ 495,262	\$ 28,414	\$ 523,676

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

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**Note 8 – Long-Term Debt (Continued)**

**B. Business-Type Activities (Continued)**

*Loans Payable (Continued)*

**HARRF Aeration Blower Replacement Project**

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 2025. The project was completed as of June 30, 2006. Principal and interest payments on the loans are payable from the Wastewater Fund consisting of sewer rates, fees, and charges. The outstanding balance at June 30, 2020, is \$460,412.

The annual debt service requirements are as follows:

<b>Year Ended</b>				
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2021	\$ 87,767	\$ 11,050	\$	98,817
2022	89,874	8,943		98,817
2023	92,031	6,786		98,817
2024	94,240	4,577		98,817
2025	96,500	2,317		98,817
Total	<u>\$ 460,412</u>	<u>\$ 33,673</u>	<u>\$</u>	<u>494,085</u>

**Alexander Area Phase II Water Line Project**

In October 2009, the City 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 loan funding 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. Principal and interest payments on the loans are payable from the Water Fund consisting of water rates, fees, and charges. The outstanding balance at June 30, 2020, is \$1,795,760.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**B. Business-Type Activities (Continued)**

**Loans Payable (Continued)**

**Alexander Area Phase II Water Line Project (Continued)**

The annual debt service requirements are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 136,615	\$ 44,075	\$ 180,690
2022	140,054	40,636	180,690
2023	143,580	37,110	180,690
2024	147,194	33,496	180,690
2025	150,899	29,791	180,690
2026-2030	813,421	90,026	903,447
2031-2032	263,997	6,627	270,624
Total	<u>\$ 1,795,760</u>	<u>\$ 281,761</u>	<u>\$ 2,077,521</u>

**Brine Transmission Line Project**

In October 2017, the City entered a construction installment sale agreement with the State Water Resources Control Board for funding for construction of a 15-inch brine transmission pipeline from Broadway to the Hale Avenue Resource Recovery Facility. A total of \$5,019,938 in project costs were incurred and submitted to the State for reimbursement. Repayment begins October 23, 2020, with semi-annual payments of principal and interest of \$217,751, including interest at the rate of 1.8%. The repayment period ends on October 23, 2049. Principal and interest payments on the loans are payable from the Wastewater Fund consisting of sewer rates, fees, and charges. The outstanding balance at June 30, 2020, is \$5,019,938.

The annual debt service requirements are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 133,769	\$ 83,982	\$ 217,751
2022	129,800	87,951	217,751
2023	132,136	85,615	217,751
2024	134,515	83,236	217,751
2025	136,936	80,815	217,751
2026-2030	722,553	366,202	1,088,755
2031-2035	789,966	298,789	1,088,755
2036-2040	863,669	225,086	1,088,755
2041-2045	944,248	144,507	1,088,755
2046-2050	1,032,346	56,410	1,088,756
Total	<u>\$ 5,019,938</u>	<u>\$ 1,512,593</u>	<u>\$ 6,532,531</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**B. Business-Type Activities (Continued)**

*Loans Payable (Continued)*

**Lindley Reservoir Tank Replacement Project**

In June 2019, the City of Escondido entered into an installment sale agreement with the California Infrastructure and Economic Development Bank (IBank) for the Lindley Reservoir Tank Replacement Project. The IBank loan is provided through IBank’s Infrastructure State Revolving Fund (ISRF) Loan Program. The loan amount approved is \$15 million with a term of 30 years at an annual interest rate of 3.00%. Repayment of the loan will begin in August 2020, with semi-annual payments of interest and principal of approximately \$776,000. The estimated project completion date is May 2022. The loan will be funded from revenues of the Water Fund. The outstanding balance at June 30, 2020, is \$15,000,000.

The annual debt service requirements are as follows:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 331,720	\$ 445,024	\$ 776,744
2022	341,672	434,923	776,595
2023	351,922	424,519	776,441
2024	362,479	413,803	776,282
2025	373,354	402,766	776,120
2026-2030	2,041,652	1,836,324	3,877,976
2031-2035	2,366,834	1,506,264	3,873,098
2036-2040	2,743,810	1,123,634	3,867,444
2041-2045	3,180,827	680,061	3,860,888
2046-2050	2,905,730	177,564	3,083,294
Total	<u>\$ 15,000,000</u>	<u>\$ 7,444,882</u>	<u>\$ 22,444,882</u>

**Recycled Water Easterly Main and Tanks Project**

In October 2017, the City entered into a construction installment sale agreement with the State Water Resources Control Board for funding of up to \$8 million for the Recycled Water Easterly Main and Tanks Project. This project extends the existing transmission pipeline from the Broadway crossing of Escondido Creek to the Hale Avenue Resource and Recovery Facility. A portion of the principal amount, \$2,500,000, is funded by Proposition 1 – the Water Quality, Supply, and Infrastructure Improvement Act of 2014 and the Clean Water State Revolving Fund and is anticipated to be forgiven contingent on the City’s performance of its obligations under the agreement. The interest rate on the loan is 1.8% and the repayment period for the loan is 30 years, beginning one year after completion of construction of the project. The loan will be funded from revenues of the Wastewater Fund. As of June 30, 2020, \$2,890,106 had been disbursed to the City.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**B. Business-Type Activities (Continued)**

**2019A Water Refunding Revenue Bonds**

In November 2019, the Escondido Joint Powers Financing Authority issued \$20,380,000 of Refunding Revenue Bonds (Water System), Series 2019A. Proceeds from the issuance were used to refund the 2007 Water Certificates of Participation bonds and to pay the costs of issuing the Bonds. The refunding decreased the total debt service payment by \$3.5 million and resulted in an economic gain of \$4.9 million. 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, 2020. The Bonds mature starting September 1, 2020 and end on September 1, 2037 and are limited obligations of the City payable solely from net revenues of the City’s Water System remaining after payment of operation and maintenance costs. At June 30, 2020, the outstanding balance of the Bonds was \$20,380,000 and unamortized bond premium was \$3,947,068.

The annual debt service requirements are as follows:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 580,000	\$ 927,350	\$ 1,507,350
2022	605,000	906,550	1,511,550
2023	630,000	878,700	1,508,700
2024	665,000	746,325	1,411,325
2025	755,000	810,825	1,565,825
2026-2030	4,695,000	3,396,875	8,091,875
2031-2036	4,695,000	2,347,675	7,042,675
2036-2038	7,755,000	486,275	8,241,275
Total	<u>\$ 20,380,000</u>	<u>\$ 10,500,575</u>	<u>\$ 30,880,575</u>

**2019B Water Refunding Revenue Bonds**

In November 2019, the Escondido Joint Powers Financing Authority issued \$30,000,000 of Refunding Revenue Bonds (Water System), Series 2019B. Proceeds from the issuance were used to refund the 2012 Escondido Joint Powers Financing Authority Water Revenue Bonds and to pay the costs of issuing the Bonds. The refunding decreased the total debt service payment by \$3.0 million and resulted in an economic gain of \$3.1 million. The Bonds bear interest ranging from 1.83% to 3.15% per annum payable on March 1 and September 1 of each year commencing March 1, 2020. The Bonds mature starting September 1, 2020 and end on September 1, 2033.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**B. Business-Type Activities (Continued)**

**2019B Water Refunding Revenue Bonds (Continued)**

Bonds with stated maturities on or after September 1, 2030 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 35-day notice is mailed by the Trustee to bondholders, and by lot within each maturity in integral multiples of \$5,000, on or after September 1, 2029 at a price without premium, equal to the principal amount plus accrued interest to the redemption date. Additionally, the term certificates, maturing annually on September 1, 2034 to September 1, 2041 are subject to mandatory sinking fund redemption 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 Bonds are limited obligations of the City payable solely from net revenues of the City’s Water System remaining after payment of operation and maintenance costs. At June 30, 2020, the outstanding balance of the Bonds was \$30,000,000.

The annual debt service requirements are as follows:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 785,000	\$ 913,913	\$ 1,698,913
2022	795,000	899,226	1,694,226
2023	815,000	883,813	1,698,813
2024	830,000	867,037	1,697,037
2025	855,000	849,043	1,704,043
2026-2030	4,675,000	3,901,730	8,576,730
2031-2035	7,240,000	2,992,498	10,232,498
2036-2040	7,205,000	2,131,710	9,336,710
2041-2042	6,800,000	240,786	7,040,786
Total	<u>\$ 30,000,000</u>	<u>\$ 13,679,756</u>	<u>\$ 43,679,756</u>

**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.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**B. Business-Type Activities (Continued)**

**2012 Wastewater Revenue Bonds (Continued)**

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 outstanding balance at June 30, 2020, was \$26,170,000 and unamortized bond premium is \$1,376,202.

The annual debt service requirements are as follows:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	205,000	1,236,781	1,441,781
2025	215,000	1,229,456	1,444,456
2026-2030	4,105,000	5,803,222	9,908,222
2031-2035	7,365,000	4,307,507	11,672,507
2036-2040	9,310,000	2,301,718	11,611,718
2041-2042	4,405,000	222,875	4,627,875
Total	<u>\$ 26,170,000</u>	<u>\$ 18,858,502</u>	<u>\$ 45,028,502</u>

**2015A Wastewater Refunding Revenue Bonds**

In April 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 refunding decreased the total debt service payment by \$5.0 million over 12 years and resulted in an economic gain of \$2.4 million. 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, 2020, the outstanding balance of the Bonds was \$9,475,000 and unamortized bond premium was \$1,317,177.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**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:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	1,350,000	257,250	1,607,250
2025	1,415,000	188,125	1,603,125
2026-2027	3,055,000	154,625	3,209,625
Total	<u>\$ 9,475,000</u>	<u>\$ 1,753,125</u>	<u>\$ 11,228,125</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 refunding decreased the total debt service payment by \$3.9 million over 11 years and resulted in an economic gain of \$1.1 million. 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, 2020, the outstanding balance of the Bonds was \$2,890,000 and unamortized bond discount was \$30,009.

The annual debt service requirements are as follows:

<b>Year Ended</b>			
<b>June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 450,000	\$ 76,063	\$ 526,063
2022	460,000	65,250	525,250
2023	475,000	52,969	527,969
2024	485,000	39,162	524,162
2025	505,000	24,313	529,313
2026	515,000	8,368	523,368
Total	<u>\$ 2,890,000</u>	<u>\$ 266,125</u>	<u>\$ 3,156,125</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**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	\$ 22,753,596	\$ 9,203,487	40.45%
Loan repayment revenue	363,644	363,644	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, 2020, the City met this requirement, as follows:

	<u>Water</u>	<u>Wastewater</u>
Gross revenues, excluding intergovernmental revenue and developer contributions	\$ 63,743,908	\$ 38,342,872
Operating and maintenance expenses, excluding depreciation, interest and transfers	52,658,179	26,675,005
<b>Net revenues</b>	<u>11,085,729</u>	<u>11,667,867</u>
<b>Amount required:</b>		
Debt service payments	3,429,624	5,773,863
Coverage required	1.20	1.15
<b>Amount required</b>	<u>4,115,549</u>	<u>6,639,942</u>
<b>Excess of net revenues</b>	<u>\$ 6,970,180</u>	<u>\$ 5,027,925</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 8 – Long-Term Debt (Continued)**

**C. Fiduciary Funds**

Summary of changes in long-term liabilities for Fiduciary Funds as of June 30, 2020, are as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Advances from the City of Escondido	\$ 14,441,939	\$ 170,427	\$ (3,372,326)	\$ 11,240,040	\$ 7,628,660	\$ 3,611,380
<b>Total</b>	<b>\$ 14,441,939</b>	<b>\$ 170,427</b>	<b>\$ (3,372,326)</b>	<b>\$ 11,240,040</b>	<b>\$ 7,628,660</b>	<b>\$ 3,611,380</b>

**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, 2020, the outstanding balance of the advance from the Street Special Revenue Fund totaled \$1,018,427.

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 began in the fiscal year ending June 30, 2019. At June 30, 2020, the outstanding balance of the advance from the General Fund totaled \$10,221,613.

**D. Component Unit**

Summary of changes in long-term liabilities for Component Unit as of June 30, 2020, are as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Compensated absences	\$ 159,471	\$ -	\$ (13,206)	\$ 146,265	\$ 14,627	\$ 131,639
Note Payable to the City of Escondido	224,405	100,000	(58,357)	266,048	70,962	195,086
Paycheck Protection Program Loan	-	753,000	-	753,000	-	753,000
<b>Total</b>	<b>\$ 383,876</b>	<b>\$ 853,000</b>	<b>\$ (71,563)</b>	<b>\$ 1,165,313</b>	<b>\$ 85,589</b>	<b>\$ 1,079,725</b>

**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, 2020, is \$146,265.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

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**Note 8 – Long-Term Debt (Continued)**

**D. Component Unit (Continued)**

**Notes Payable to the City of Escondido**

In October 2018, the Foundation entered into a loan agreement with the City of Escondido in the amount of \$261,500 to finance the purchase of equipment. The note bears interest at 2.598% per annum and has a maturity date of September 2023. Fixed monthly payments of \$4,652 are due on the first day of each month, beginning October 2018. The balance of the note is \$173,813 at June 30, 2020. The note is not secured by any collateral. The annual debt service requirements are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 51,927	\$ 3,900	\$ 55,827
2022	53,292	2,535	55,827
2023	54,693	1,134	55,827
2024	13,901	60	13,961
Total	<u>\$ 173,813</u>	<u>\$ 7,629</u>	<u>\$ 181,442</u>

In December 2019, the Foundation entered into a loan agreement with the City of Escondido in the amount of \$100,000 to finance the purchase of new Conference Center chairs and lobby seating. The note bears interest at 3.069% per annum and has a maturity date of January 2025. Fixed monthly payments of \$1,800 are due on the first day of each month, beginning February 2020. The balance of the note is \$92,235 at June 30, 2020. The note is not secured by any collateral. The annual debt service requirements are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 19,035	\$ 2,565	\$ 21,600
2022	19,628	1,972	21,600
2023	20,239	1,361	21,600
2024	20,869	731	21,600
2025	12,464	128	12,592
Total	<u>\$ 92,235</u>	<u>\$ 6,757</u>	<u>\$ 98,992</u>

**Paycheck Protection Loan Program**

In May 2020, the Foundation received loan proceeds in the amount of \$753,000 under the Paycheck Protection Program (“PPP”). The PPP was established as part of the Coronavirus Aid, Relief and Economic Security Act, and provides for loans for amounts up to 2.5 times the average monthly payroll expenses of qualifying businesses. The loan is forgivable after twenty-four weeks as long as the borrower uses the loan for eligible purposes including payroll, benefits, rent and utilities and maintains its payroll levels. The Foundation applied for the forgiveness subsequent to year end. The balance of the note is \$753,000 at June 30, 2020.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

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**Note 9 – Debt without City’s Commitment**

**A. Mortgage Revenue Bonds**

The City has outstanding multifamily mortgage housing revenue bonds totaling \$11,150,000. The bonds were issued to provide funds for the purchase and/or construction of multifamily housing facilities to provide low-income housing to residents. 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, the City is not liable for repayment of the bonds.

**B. Special Assessment Debt**

The City has issued certain Assessment District and Community Facilities District Bonds. 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.

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, 2020, the 98-1 Limited Obligation Refunding Bonds outstanding were \$1,905,000.

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, 2020, the 2006-01 Special Tax Bonds outstanding were \$12,075,000.

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, 2020, the outstanding principal of Community Facilities District No. 2000-01 (Hidden Trails) Special Tax Refunding bonds, Series 2013 was \$1,730,000.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

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**Note 10 – Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is self-insured for the first \$500,000 per occurrence on workers' compensation claims and the first \$500,000 per occurrence on general liability claims. The City is covered up to the statutory limit for workers' compensation and \$50,000,000 for general liability by an excess liability policy with commercial insurance corporations for any claims in excess of the above amounts.

The City utilizes the California State Association of Counties – Excess Insurance Authority (CSAC-EIA), a member-directed risk sharing pool of counties and public entities. With the dissolution of SANDPIPA, the City elected to join the CSAC-EIA pool as a new member and procured all lines of insurance coverage for the City. With the assistance of the City's broker Alliant, coverage includes General Liability, Workers' Compensation, First Party Property, Automobile, Vessel and Cyber Liability coverages. Annual premiums and assessments are approved by the Board of Directors and are adjusted each year based on based on an actuarial review that estimates each of the program participant's ultimate liabilities.

The City uses the General Liability Self-Insurance Fund and the Workers' Compensation Fund to account for and finance risks for each liability. Both funds are accounted for as an internal service fund where assets are set aside for risk management, administration, claim settlements and benefit distribution.

Fund liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of payouts and other economic and social factors. Increases and decreases in claim liabilities for changes in estimates are charged to expense in the period in which the estimates are adjusted.

As of June 30, 2020, the City has recorded general self-insurance and workers' compensation liabilities of \$3,372,600 and \$14,503,000 respectively, for a total of \$17,875,600. 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
2017-18	\$ 16,367,400	\$ 3,377,317	\$ (2,921,317)	\$ 16,823,400
2018-19	16,823,400	3,365,936	(2,575,536)	17,613,800
2019-20	17,613,800	3,332,401	(3,070,601)	17,875,600

There were no significant changes in insurance coverage from the prior year, and there were no settlements in excess of the insurance coverage in any of the prior three years.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 11 – Fund Balance**

**A. Fund Balance Classification**

At June 30, 2020, fund balances are classified as follows:

Fund Balances:	General	Special Revenue		Total Governmental Funds
		Successor Agency Housing	Nonmajor Governmental Funds	
<b>Nonspendable</b>				
Due from Successor Agency, net of unavailable revenue of \$8,356,515	\$ 1,865,098	\$ -	\$ -	\$ 1,865,098
Inventory and prepaid items	-	-	44,137	44,137
Daley Ranch Permanent Fund	-	-	250,034	250,034
<b>Total nonspendable</b>	<u>1,865,098</u>	<u>-</u>	<u>294,171</u>	<u>2,159,269</u>
<b>Restricted for</b>				
Housing & community development	-	44,987,373	18,743,276	63,730,649
Investment in Section 115 Trust	13,572,027	-	-	13,572,027
Debt service	-	-	4,357,437	4,357,437
Capital projects	-	-	8,315,780	8,315,780
Street maintenance	-	-	10,300,020	10,300,020
Landscape and assessment districts	-	-	1,621,830	1,621,830
Law enforcement	-	-	117,852	117,852
Vehicle Parking District	-	-	10,497	10,497
Daley Ranch	-	-	631,226	631,226
Park development	-	-	3,910,656	3,910,656
Public art	-	-	757,184	757,184
<b>Total restricted</b>	<u>13,572,027</u>	<u>44,987,373</u>	<u>48,765,758</u>	<u>107,325,158</u>
<b>Committed to</b>				
Reserves	17,392,319	-	-	17,392,319
Capital projects	-	-	764,863	764,863
<b>Total committed</b>	<u>17,392,319</u>	<u>-</u>	<u>764,863</u>	<u>18,157,182</u>
<b>Assigned to</b>				
Carryovers	261,230	-	-	261,230
Underground waivers	1,664,065	-	-	1,664,065
Library Trust	439,225	-	-	439,225
<b>Total assigned</b>	<u>2,364,520</u>	<u>-</u>	<u>-</u>	<u>2,364,520</u>
<b>Unassigned (deficit)</b>	<u>1,894,735</u>	<u>-</u>	<u>(1,516,035)</u>	<u>378,700</u>
<b>Total Fund Balances</b>	<u>\$ 37,088,699</u>	<u>\$ 44,987,373</u>	<u>\$ 48,308,757</u>	<u>\$ 130,384,829</u>

**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.

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 12 – 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, 2017 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, 2019, are summarized as follows:

	<b>Miscellaneous Plan</b>		
	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, 2020**

**Note 12 – City Employees Retirement Plan (Continued)**

**A. CalPERS (Continued)**

*Benefits Provided (continued)*

	<b>Safety Plan</b>		
	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, 2019, the following employees were covered by the benefit terms of the plan:

<b>Description</b>	<b>Number of members</b>	
	<b>Miscellaneous</b>	<b>Safety</b>
Active members	551	246
Transferred members	314	63
Terminated members	388	54
Retired members and beneficiaries	731	326
Total Members	1,984	689

*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, 2020**

**Note 12 – 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, 2019, the total pension liability was determined by rolling forward the June 30, 2018 total pension liability. The June 30, 2019 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
<b>Actuarial Cost Method</b>	Entry Age Normal	Entry Age Normal
<b>Actuarial Assumptions</b>		
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, 2017 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 in Assumption***

The CalPERS Board has approved reducing the discount rate from 7.15 percent to 7.00 percent for the City's fiscal year ending June 30, 2020.

***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, 2020**

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**Note 12 – 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.

Assets Class	New Strategic Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11+ (2)
Global Equity	52.00%	4.80%	5.98%
Global Fixed Income	32.00%	1.10%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%

- (1) An expected inflation of 2.0% used for this period
- (2) An expected inflation of 2.92% used for this period

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 12 – 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)
<b>Miscellaneous Plan</b>			
Balance at: 6/30/2018 (Valuation Date) <sup>(1)</sup>	\$ 424,055,082	\$ 294,644,601	\$ 129,410,481
Changes Recognized for the Measurement Period:			
Service Cost	6,589,855	-	6,589,855
Interest on the Total Pension Liability	30,075,271	-	30,075,271
Changes of Assumptions	-	-	-
Difference between Expected and Actual Experience	3,980,050	-	3,980,050
Plan to Plan Resource Movement	-	-	-
Contribution from the Employer	-	13,300,378	(13,300,378)
Contributions from Employees	-	2,790,203	(2,790,203)
Net Investment Income <sup>(2)</sup>	-	19,150,898	(19,150,898)
Benefit Payments including Refunds of Employee Contributions	(21,393,785)	(21,393,785)	-
Administrative Expense	-	(210,265)	210,265
Other Miscellaneous Income/(Expense)	-	684	(684)
Net Changes During 2018-19	19,251,391	13,638,113	5,613,278
Balance at: 6/30/2019 (Measurement Date) <sup>(1)</sup>	\$ 443,306,473	\$ 308,282,714	\$ 135,023,759
<b>Safety Plan</b>			
Balance at: 6/30/2018 (Valuation Date) <sup>(1)</sup>	\$ 398,932,291	\$ 285,102,607	\$ 113,829,684
Changes Recognized for the Measurement Period:			
Service Cost	7,977,162	-	7,977,162
Interest on the Total Pension Liability	28,267,807	-	28,267,807
Changes of Assumptions	-	-	-
Difference between Expected and Actual Experience	1,855,614	-	1,855,614
Plan to Plan Resource Movement	-	160,070	(160,070)
Contribution from the Employer	-	11,295,735	(11,295,735)
Contributions from Employees	-	2,743,929	(2,743,929)
Net Investment Income <sup>(2)</sup>	-	18,673,377	(18,673,377)
Benefit Payments including Refunds of Employee Contributions	(18,845,100)	(18,845,100)	-
Administrative Expense	-	(203,455)	203,455
Other Miscellaneous Income/(Expense)	-	661	(661)
Net Changes During 2018-19	19,255,483	13,825,217	5,430,266
Balance at: 6/30/2019 (Measurement Date) <sup>(1)</sup>	\$ 418,187,774	\$ 298,927,824	\$ 119,259,950

(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, 2020**

**Note 12 – 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:

	<b>Discount Rate - 1%</b> <b>(6.15%)</b>	<b>Current Discount Rate</b> <b>(7.15%)</b>	<b>Discount Rate +1%</b> <b>(8.15%)</b>
Miscellaneous Plan	\$ 190,906,701	\$ 135,023,759	\$ 88,524,045
Safety Plan	177,467,658	119,259,950	71,579,509
Total Plans	<u>\$ 368,374,359</u>	<u>\$ 254,283,709</u>	<u>\$ 160,103,554</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, 2019, the City incurred a pension expense of \$13,300,378 and \$11,295,735 for Miscellaneous and Safety plans, respectively. As of measurement date of June 30, 2019, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

	<b>Miscellaneous Plan</b>		<b>Safety Plan</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Pension contributions made after measurement date	\$ 14,696,078	\$ -	\$ 12,682,525	\$ -
Changes of Assumptions	-	(796,900)	6,496,077	-
Differences between Expected and Actual Experiences	1,936,198	-	654,377	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(1,378,162)	-	(1,246,983)
	<u>\$ 16,632,276</u>	<u>\$ (2,175,062)</u>	<u>\$ 19,832,979</u>	<u>\$ (1,246,983)</u>

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

**Note 12 – 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 2018-19 measurement period is 2.8 and 4.4 years, which was obtained by dividing the total service years of 5,451 and 2,994 (the sum of remaining service lifetimes of the active employees) by 1,924 and 678 (the total number of participants: active, inactive, and retired), respectively.

The \$1,936,198 and \$7,150,454 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, 2019 will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. 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) of Resources	Deferred Outflows/(Inflows) of Resources
June 30:	Miscellaneous Plan	Safety Plan
2020	\$ 1,154,993	\$ 6,299,017
2021	(1,336,924)	(414,887)
2022	(397,050)	(453,906)
2023	340,117	473,253
2024	-	-
Thereafter	-	-
Total	\$ (238,864)	\$ 5,903,477

**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, 2020, the City's total covered payroll was \$1,962,827. The City made employer contributions of \$0, and employees contributed \$147,138 (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, 2020**

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**Note 13 – 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, 2020, the balance is \$9,911,248.

**Note 14 – 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 evidenced by contractual commitments with contractors. As of June 30, 2020, the City’s outstanding commitments are as follows:

Project Name	Contract Amount	Expenditures to date as of June 30, 2020	Remaining Commitments
Recycled Water Easterly Main and Tanks Project	\$ 10,094,227	\$ 8,721,690	\$ 1,372,537
Spruce Street Channel Improvement Project and Escondido Transit Center Active Transportation Connections Project	3,561,143	2,210,315	1,350,828
2019 Street Rehabilitation and Maintenance Project	5,334,438	4,670,616	663,821

**CITY OF ESCONDIDO**  
**Notes to Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2020**

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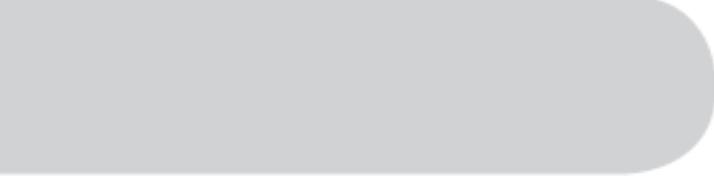
**Note 14 – Contingencies and Commitments (Continued)**

**D. COVID-19 Contingency**

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the City could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the City and the duration cannot be estimated at this time.

**Note 15 – Subsequent Events**

On June 29, 2020, the State approved the budget and authorized the Department of Finance to allocate \$1,289,065,000 to address the public health and public safety impacts of COVID-19 including homelessness. Pursuant to the provisions of Control Section 11.90, cities with populations between 300,000 and 500,000 were allocated \$225 million and cities with populations of less than 300,000 were allocated \$275 million. Based on the City's population, the City is allocated \$1,889,210 and will be received in six installments starting July 2020.



# Required Supplementary Information

**CITY OF ESCONDIDO**  
**Required Supplementary Information**  
**General Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2020**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>				
Sales tax	\$ 38,947,000	\$ 36,936,200	\$ 36,651,485	\$ (284,715)
Property taxes	28,825,000	29,160,000	29,273,988	113,988
Other taxes	13,784,000	12,818,285	13,095,121	276,836
Licenses and permits	944,500	944,500	923,125	(21,375)
Fines and forfeits	1,226,000	1,226,000	1,122,485	(103,515)
Intergovernmental	4,039,000	4,220,000	3,763,506	(456,494)
Charges for services	11,303,400	12,231,400	12,205,412	(25,988)
Lease income	4,047,710	3,795,710	3,655,490	(140,220)
Investment income	563,000	563,000	1,748,730	1,185,730
Miscellaneous	1,709,275	1,509,535	1,892,987	383,452
<b>Total revenues</b>	<b>105,388,885</b>	<b>103,404,630</b>	<b>104,332,329</b>	<b>927,699</b>
<b>EXPENDITURES:</b>				
General Government				
City council	357,675	357,675	304,981	(52,694)
City manager	1,089,230	1,254,470	1,254,102	(368)
City attorney	171,490	254,570	253,713	(857)
City clerk	583,605	599,710	555,753	(43,957)
City treasurer	266,335	266,335	204,459	(61,876)
Finance	1,375,050	1,504,245	1,344,994	(159,251)
Human resources	637,145	699,830	402,133	(297,697)
Information systems	1,570,305	1,867,905	1,608,538	(259,367)
Other general government	1,724,415	881,080	785,266	(95,814)
Public Safety				
Police	45,802,234	46,078,624	45,308,706	(769,918)
Fire	24,746,165	26,045,785	25,900,977	(144,808)
Public Works				
Public works	12,304,506	12,520,781	12,321,692	(199,089)
Community Services				
Library	3,517,777	3,411,057	3,252,335	(158,722)
Community services	7,046,710	6,967,850	6,611,771	(356,079)
Community relations	95,000	95,000	32,000	(63,000)
Community Development				
Planning	2,416,745	2,437,210	1,880,597	(556,613)
Code enforcement	1,220,615	1,220,615	1,185,875	(34,740)
Building	1,143,340	1,162,715	941,648	(221,067)
Capital Outlay	231,525	231,525	231,525	-
Debt Service:				
Principal retirements	536,335	536,335	536,335	-
Interest and fiscal charges	93,980	93,980	94,017	37
<b>Total expenditures</b>	<b>106,930,182</b>	<b>108,487,297</b>	<b>105,011,417</b>	<b>(3,475,880)</b>

**CITY OF ESCONDIDO**  
**Required Supplementary Information**  
**General Fund**  
**Budgetary Comparison Schedule (Continued)**  
**For the Year Ended June 30, 2020**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(1,541,297)	(5,082,667)	(679,088)	4,403,579
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of capital assets	-	4,100,000	4,135,540	35,540
Transfers in	2,085,000	2,102,550	2,102,550	-
Transfers (out)	(3,306,800)	(2,249,405)	(2,249,405)	-
<b>Total other financial sources (uses)</b>	(1,221,800)	3,953,145	3,988,685	35,540
<b>NET CHANGE IN FUND BALANCE</b>	(2,763,097)	(1,129,522)	3,309,597	4,439,119
<b>FUND BALANCE:</b>				
Beginning of Year	33,779,102	33,779,102	33,779,102	-
End of Year	<u>\$ 31,016,005</u>	<u>\$ 32,649,580</u>	<u>\$ 37,088,699</u>	<u>\$ 4,439,119</u>

**CITY OF ESCONDIDO**  
**Required Supplementary Information**  
**Successor Agency Housing Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2020**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>				
Lease income	\$ 165,000	\$ 165,000	\$ 173,350	\$ 8,350
Investment income	-	-	676,837	676,837
Miscellaneous	-	-	28,809	28,809
<b>Total revenues</b>	<u>165,000</u>	<u>165,000</u>	<u>879,100</u>	<u>714,100</u>
<b>EXPENDITURES:</b>				
Current:				
Community development	489,585	961,070	882,668	(78,402)
<b>Total expenditures</b>	<u>489,585</u>	<u>961,070</u>	<u>882,668</u>	<u>(78,402)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(324,585)</u>	<u>(796,070)</u>	<u>(3,568)</u>	<u>792,502</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	25,000	689,465	689,465	-
<b>Total other financing sources (uses)</b>	<u>25,000</u>	<u>689,465</u>	<u>689,465</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(299,585)	(106,605)	685,897	792,502
<b>FUND BALANCE:</b>				
Beginning of Year	44,301,476	44,301,476	44,301,476	-
End of Year	<u>\$ 44,001,891</u>	<u>\$ 44,194,871</u>	<u>\$ 44,987,373</u>	<u>\$ 792,502</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**

MEASUREMENT PERIOD	2018-19	2017-18	2016-17	2015-16
<b>TOTAL PENSION LIABILITY</b>				
Service Cost	\$ 6,589,855	\$ 7,086,737	\$ 7,098,079	\$ 6,041,393
Interest	30,075,271	28,726,687	27,888,570	26,975,771
Changes of Benefits Terms	-	-	-	-
Changes in Assumptions	-	(2,390,700)	22,286,442	-
Difference Between expected and Actual Experience	3,980,050	(1,867,216)	(1,062,074)	(607,786)
Benefit Payments, Including Refunds of Employee Contributions	(21,393,785)	(19,973,641)	(18,028,629)	(16,660,225)
<b>Net Change in Total Pension Liability</b>	<b>\$ 19,251,391</b>	<b>\$ 11,581,867</b>	<b>\$ 38,182,388</b>	<b>\$ 15,749,153</b>
Total Pension Liability - Beginning	424,055,082	412,473,215	374,290,827	358,541,674
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 443,306,473</b>	<b>\$ 424,055,082</b>	<b>\$ 412,473,215</b>	<b>\$ 374,290,827</b>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contribution - Employer	\$ 13,300,378	\$ 11,929,230	\$ 11,179,205	\$ 10,112,332
Contribution - Employee	2,790,203	2,810,647	2,789,527	2,818,117
Net Investment Income <sup>(2)</sup>	19,150,898	23,296,317	28,354,307	1,306,944
Benefit Payments, Including Refunds of Employee Contributions	(21,393,785)	(19,973,641)	(18,028,629)	(16,660,225)
Plan to Plan Resource Movement	-	(684)	-	-
Administrative Expense	(210,265)	(432,948)	(374,893)	(156,322)
Other Miscellaneous Income/(Expense) <sup>(3)</sup>	684	(822,175)	-	-
<b>Net Change in Fiduciary Net Position</b>	<b>\$ 13,638,113</b>	<b>\$ 16,806,746</b>	<b>\$ 23,919,517</b>	<b>\$ (2,579,154)</b>
Plan Fiduciary Net Position - Beginning	294,644,601	277,837,855	253,918,338	256,497,492
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 308,282,714</b>	<b>\$ 294,644,601</b>	<b>\$ 277,837,855</b>	<b>\$ 253,918,338</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 135,023,759</b>	<b>\$ 129,410,481</b>	<b>\$ 134,635,360</b>	<b>\$ 120,372,489</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>69.54%</b>	<b>69.48%</b>	<b>67.36%</b>	<b>67.84%</b>
<b>Covered Payroll</b>	<b>\$ 37,685,287</b>	<b>\$ 37,294,690</b>	<b>\$ 37,199,720</b>	<b>\$ 34,850,841</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>358.29%</b>	<b>346.99%</b>	<b>361.93%</b>	<b>345.39%</b>

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

<sup>(2)</sup> Net of administrative expenses for fiscal year 2013-14.

<sup>(3)</sup> CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

**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, 2017 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 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was 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)**  
**Miscellaneous Plan - Agent Multiple-Employer Defined Benefit Plan (Continued)**  
**Schedule of Changes in Net Pension Liability and Related Ratios (Continued)**  
**As of June 30, for the Last Ten Fiscal Years**

MEASUREMENT PERIOD	2014-15	2013-14 <sup>(1)</sup>
<b>TOTAL PENSION LIABILITY</b>		
Service Cost	\$ 6,086,726	\$ 6,187,698
Interest	25,822,523	24,823,748
Changes of Benefits Terms	-	-
Changes in Assumptions	(6,078,768)	-
Difference Between expected and Actual Experience	(3,440,683)	-
Benefit Payments, Including Refunds of Employee Contributions	(15,747,072)	(14,003,896)
<b>Net Change in Total Pension Liability</b>	<b>\$ 6,642,726</b>	<b>\$ 17,007,550</b>
Total Pension Liability - Beginning	351,898,948	334,891,398
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 358,541,674</b>	<b>\$ 351,898,948</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contribution - Employer	\$ 8,956,819	\$ 8,191,219
Contribution - Employee	2,702,365	2,751,097
Net Investment Income <sup>(2)</sup>	5,794,332	38,132,668
Benefit Payments, Including Refunds of Employee Contributions	(15,747,072)	(14,003,896)
Plan to Plan Resource Movement	(741)	-
Administrative Expense	(288,739)	-
Other Miscellaneous Income/(Expense) <sup>(3)</sup>	-	-
<b>Net Change in Fiduciary Net Position</b>	<b>\$ 1,416,964</b>	<b>\$ 35,071,088</b>
Plan Fiduciary Net Position - Beginning	255,080,528	220,009,440
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 256,497,492</b>	<b>\$ 255,080,528</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 102,044,182</b>	<b>\$ 96,818,420</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>71.54%</b>	<b>72.49%</b>
<b>Covered Payroll</b>	<b>\$ 34,030,669</b>	<b>\$ 32,920,288</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>299.86%</b>	<b>294.10%</b>

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

<sup>(2)</sup> Net of administrative expenses for fiscal year 2013-14.

<sup>(3)</sup> CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

**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, 2017 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 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was 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**

MEASUREMENT PERIOD	2018-19	2017-18	2016-17	2015-16
<b>TOTAL PENSION LIABILITY</b>				
Service Cost	\$ 7,977,162	\$ 7,860,653	\$ 7,712,365	\$ 6,945,677
Interest	28,267,807	26,945,680	26,029,723	25,001,133
Changes of Benefits Terms	-	-	-	-
Changes in Assumptions	-	(1,803,722)	22,546,727	-
Difference Between expected and Actual Experience	1,855,614	(1,997,161)	(1,522,544)	5,753,055
Benefit Payments, Including Refunds of Employee Contributions	(18,845,100)	(17,612,750)	(16,796,782)	(15,432,111)
<b>Net Change in Total Pension Liability</b>	<b>\$ 19,255,483</b>	<b>\$ 13,392,700</b>	<b>\$ 37,969,489</b>	<b>\$ 22,267,754</b>
Total Pension Liability - Beginning	398,932,291	385,539,591	347,570,102	325,302,348
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 418,187,774</b>	<b>\$ 398,932,291</b>	<b>\$ 385,539,591</b>	<b>\$ 347,570,102</b>
<b>PLAN FIDUCIARY NET POSITION</b>				
Contribution - Employer	\$ 11,295,735	\$ 10,527,707	\$ 9,490,834	\$ 9,136,622
Contribution - Employee	2,743,929	2,757,287	2,397,909	2,460,227
Net Investment Income <sup>(2)</sup>	18,673,377	22,392,729	27,240,685	1,283,251
Benefit Payments, Including Refunds of Employee Contributions	(18,845,100)	(17,612,750)	(16,796,782)	(15,432,111)
Plan to Plan Resource Movement	160,070	(661)	-	-
Administrative Expense	(203,455)	(418,008)	(363,617)	(151,743)
Other Miscellaneous Income/(Expense) <sup>(3)</sup>	661	(793,803)	-	-
<b>Net Change in Fiduciary Net Position</b>	<b>\$ 13,825,217</b>	<b>\$ 16,852,501</b>	<b>\$ 21,969,029</b>	<b>\$ (2,703,754)</b>
Plan Fiduciary Net Position - Beginning	285,102,607	268,250,106	246,281,077	248,984,831
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 298,927,824</b>	<b>\$ 285,102,607</b>	<b>\$ 268,250,106</b>	<b>\$ 246,281,077</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 119,259,950</b>	<b>\$ 113,829,684</b>	<b>\$ 117,289,485</b>	<b>\$ 101,289,025</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>71.48%</b>	<b>71.47%</b>	<b>69.58%</b>	<b>70.86%</b>
<b>Covered Payroll</b>	<b>\$ 25,881,343</b>	<b>\$ 25,864,216</b>	<b>\$ 25,070,264</b>	<b>\$ 25,315,004</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>460.80%</b>	<b>440.10%</b>	<b>467.84%</b>	<b>400.11%</b>

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

<sup>(2)</sup> Net of administrative expenses for fiscal year 2013-14.

<sup>(3)</sup> CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

**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, 2017 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 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was 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 (Continued)**  
**Schedule of Changes in Net Pension Liability and Related Ratios (Continued)**  
**As of June 30, for the Last Ten Fiscal Years**

MEASUREMENT PERIOD	2014-15	2013-14 <sup>(1)</sup>
<b>TOTAL PENSION LIABILITY</b>		
Service Cost	\$ 6,321,850	\$ 5,878,133
Interest	23,398,715	22,099,344
Changes of Benefits Terms	-	-
Changes in Assumptions	(5,933,256)	-
Difference Between expected and Actual Experience	2,817,273	-
Benefit Payments, Including Refunds of Employee Contributions	(14,245,717)	(13,505,688)
<b>Net Change in Total Pension Liability</b>	<b>\$ 12,358,865</b>	<b>\$ 14,471,789</b>
Total Pension Liability - Beginning	312,943,483	298,471,694
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 325,302,348</b>	<b>\$ 312,943,483</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contribution - Employer	\$ 9,066,062	\$ 7,687,967
Contribution - Employee	2,322,205	2,079,491
Net Investment Income <sup>(2)</sup>	5,455,063	36,944,486
Benefit Payments, Including Refunds of Employee Contributions	(14,245,717)	(13,505,688)
Plan to Plan Resource Movement	-	-
Administrative Expense	(280,190)	-
Other Miscellaneous Income/(Expense) <sup>(3)</sup>	-	-
<b>Net Change in Fiduciary Net Position</b>	<b>\$ 2,317,423</b>	<b>\$ 33,206,256</b>
Plan Fiduciary Net Position - Beginning	246,667,408	213,461,153
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 248,984,831</b>	<b>\$ 246,667,409</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 76,317,517</b>	<b>\$ 66,276,074</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>76.54%</b>	<b>78.82%</b>
<b>Covered Payroll</b>	<b>\$ 23,096,046</b>	<b>\$ 20,583,139</b>
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>330.44%</b>	<b>321.99%</b>

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

<sup>(2)</sup> Net of administrative expenses for fiscal year 2013-14.

<sup>(3)</sup> CalPERS employees participate in various State of California agent pension plans and during Fiscal Year 2017-18, CalPERS recorded a correction to previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB Statement No. 68, Accounting and Financial Reporting for Pensions (GASB 68).

**Notes to Schedule:**

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Changes of Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was 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)**  
**Miscellaneous Plan - Agent Multiple-Employer Defined Benefit Plan**  
**Schedule of Plan Contributions**  
**As of June 30, for the Last Ten Fiscal Years**

	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>
Actuarially Determined Contribution	\$ 14,696,078	\$ 13,300,378	\$ 11,929,230	\$ 11,179,205
Contribution in Relation to the Actuarially Determined Contribution	<u>(14,696,078)</u>	<u>(13,300,378)</u>	<u>(11,929,230)</u>	<u>(11,179,205)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 37,685,287	\$ 37,685,287	\$ 37,403,038	\$ 37,199,720
Contributions as a Percentage of Covered Payroll	39.00%	35.29%	31.89%	30.05%

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

**Note to Schedule:**

Valuation Date:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 was from the June 30, 2015 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Assets valuation method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment rate of return	7.50% net of pension investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience study for the period from 1997 to 2011
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

**CITY OF ESCONDIDO**  
**Required Supplementary Information (Unaudited) (Continued)**  
**Miscellaneous Plan - Agent Multiple-Employer Defined Benefit Plan (Continued)**  
**Schedule of Plan Contributions**  
**As of June 30, for the Last Ten Fiscal Years**

	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u> <sup>(1)</sup>
Actuarially Determined Contribution	\$ 10,112,303	\$ 8,956,958	\$ 8,191,219
Contribution in Relation to the Actuarially Determined Contribution	<u>(10,112,303)</u>	<u>(8,956,958)</u>	<u>(8,191,219)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 34,850,841	\$ 34,030,669	\$ 32,920,288
Contributions as a Percentage of Covered Payroll	29.02%	26.32%	24.88%

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

**Note to Schedule:**

Valuation Date:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 was from the June 30, 2015 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Assets valuation method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment rate of return	7.50% net of pension investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience study for the period from 1997 to 2011
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

**CITY OF ESCONDIDO**  
**Required Supplementary Information (Unaudited) (Continued)**  
**Safety Plan - Agent Multiple-Employer Defined Benefit Plan**  
**Schedule of Plan Contributions**  
**As of June 30, for the Last Ten Fiscal Years**

	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>
Actuarially Determined Contribution	\$ 12,682,525	\$ 11,295,735	\$ 10,527,707	\$ 9,490,834	\$ 9,136,624
Contribution in Relation to the Actuarially Determined Contribution	<u>(12,682,525)</u>	<u>(11,295,735)</u>	<u>(10,527,707)</u>	<u>(9,490,834)</u>	<u>(9,136,624)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 27,406,087	\$ 26,395,214	\$ 25,864,216	\$ 25,070,264	\$ 21,836,652
Contributions as a Percentage of Covered Payroll	46.28%	42.79%	40.70%	37.86%	41.84%

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

**Note to Schedule:**

Valuation Date:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 was from the June 30, 2015 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Assets valuation method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment rate of return	7.50% net of pension investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience study for the period from 1997 to 2011
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

**CITY OF ESCONDIDO**  
**Required Supplementary Information (Unaudited) (Continued)**  
**Safety Plan - Agent Multiple-Employer Defined Benefit Plan (Continued)**  
**Schedule of Plan Contributions**  
**As of June 30, for the Last Ten Fiscal Years**

	<u>2014-15</u>	<u>2013-14 <sup>(1)</sup></u>
Actuarially Determined Contribution	\$ 9,066,062	\$ 7,687,967
Contribution in Relation to the Actuarially Determined Contribution	<u>(9,066,062)</u>	<u>(7,687,967)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 23,096,046	\$ 20,583,139
Contributions as a Percentage of Covered Payroll	39.25%	37.35%

<sup>(1)</sup> Historical information is required only for measurement for which GASB 68 is applicable.

**Note to Schedule:**

Valuation Date:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 was from the June 30, 2015 funding valuation report.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Assets valuation method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by entry age and service
Payroll Growth	3.00%
Investment rate of return	7.50% net of pension investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience study for the period from 1997 to 2011
Mortality	The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

**CITY OF ESCONDIDO**  
**Notes to Required Supplementary Information**  
**June 30, 2020**

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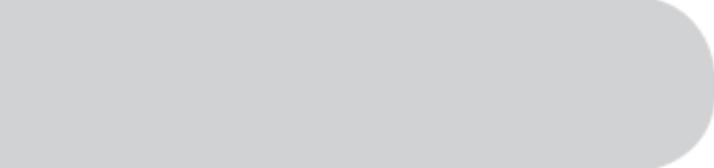
**Budgetary Information**

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, Law Enforcement, 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**

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**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 funds are utilized for basic road maintenance, rehabilitation, and critical safety projects on the local streets and roads system.
- 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 AND DEVELOPMENT 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 non-school hours
- The purchase and development of parks with funding received from park development fees collected from developers.
- Public art fees, which are assessed when development occurs. The funds will be used to provide public art throughout the city.
- 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.

**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.

**CITY OF ESCONDIDO**  
**Non-Major Governmental Funds**

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**SPECIAL REVENUE FUNDS (continued)**

**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 GRANT FUND**

This fund was established to account for transactions related to general reimbursable grants received and restricted by outside sources including federal, state, county, and local agencies.

**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 was historically provided by parking permit revenues and is currently supported by transfers from the General Fund.

**DEBT SERVICE FUNDS**

**GENERAL OBLIGATION DEBT SERVICE FUND**

This fund was created to account for transactions related to debt issued for the construction of 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.

**CITY OF ESCONDIDO**  
**Non-Major Governmental Funds**

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**CAPITAL PROJECT FUNDS**

**STREET IMPROVEMENT FUND**

This fund was created to account for projects related to street improvements such as street-related construction, improvements, and right-of-way acquisitions. Funding is provided from a variety of sources, which include transfers from Gas Tax and Traffic Impact Funds as well as grant funding received from the Department of Transportation.

**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. Project balances may include other funding sources that are restricted in how they can be used.

**COUNTY TRANSPORTATION STREET PROJECTS FUND**

This fund was established to account for transactions related to the San Diego Transportation Improvement Program Ordinance and Expenditure Plan administered by the San Diego Association of Governments (SANDAG). Allocations are funded by a one-half of one percent Transaction and Use Tax, which was established in 1987 under Proposition-A and extended by voters in November 2004. All resources are legally restricted to expenditures for street, pedestrian, and bicycle transportation programs.

**PUBLIC FACILITIES FUND**

This fund was created to account for developer fees to ensure public facility standards, established by the City, are met with respect to additional needs that are created as the result of growth and development in the City. The funds collected are restricted in how they can be spent; they cannot be used for operation, maintenance, repair, alteration, or replacement of capital facilities.

**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 an agreement with the Wildlife Agencies entered into with the California Department of Fish and Game and the U.S. Fish and Wildlife Services in 1997. Funds are deposited into the Daley Ranch Fund when conservation credits are sold by the City. Interest earned on the funds is available for the management and maintenance of the Conservation Bank in accordance with the Agreement.

**CITY OF ESCONDIDO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	Special Revenue			
	Street	Community Services and Development	Community Development Block Grant	Landscape and Assessment District
<b>ASSETS</b>				
Cash and investments	\$ 9,573,141	\$ 5,157,180	\$ -	\$ 1,652,805
Cash and investments with fiscal agent	-	-	-	-
Receivable:				
Accounts	-	2,859	-	-
Interest	33,130	19,357	-	5,998
Taxes	-	-	-	2,207
Loans	-	-	231,659	-
Due from other governments	403,970	-	222,218	-
Due from Successor Agency	1,018,427	-	-	-
Inventory	-	32,376	-	-
Prepaid items	-	11,761	-	-
Deposits	-	119,194	-	-
Advances to other funds	-	-	-	-
<b>Total assets</b>	<b>\$ 11,028,668</b>	<b>\$ 5,342,727</b>	<b>\$ 453,877</b>	<b>\$ 1,661,010</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,122,911	\$ 51,874	\$ 34,072	\$ 39,180
Deposits payable	-	-	-	-
Retention payable	-	-	-	-
Accrued expenditures	-	54,077	8,127	-
Due to other funds	-	-	120,890	-
Unearned revenues	-	-	-	-
<b>Total liabilities</b>	<b>1,122,911</b>	<b>105,951</b>	<b>163,089</b>	<b>39,180</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenue	970,195	-	453,877	-
<b>Total deferred inflows of resources</b>	<b>970,195</b>	<b>-</b>	<b>453,877</b>	<b>-</b>
<b>Fund balances:</b>				
Nonspendable	-	44,137	-	-
Restricted	8,935,562	5,192,639	-	1,621,830
Committed	-	-	-	-
Unassigned (deficit)	-	-	(163,089)	-
<b>Total fund balances</b>	<b>8,935,562</b>	<b>5,236,776</b>	<b>(163,089)</b>	<b>1,621,830</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 11,028,668</b>	<b>\$ 5,342,727</b>	<b>\$ 453,877</b>	<b>\$ 1,661,010</b>

**CITY OF ESCONDIDO**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	Special Revenue			
	Law Enforcement	HOME	Miscellaneous Grants	Vehicle Parking District
<b>ASSETS</b>				
Cash and investments	\$ 164,214	\$ 1,505,547	\$ 1,405,621	\$ 10,413
Cash and investments with fiscal agent	-	-	-	-
Receivable:				
Accounts	-	-	-	-
Interest	2,557	5,846,996	-	117
Taxes	-	-	-	-
Loans	-	17,233,004	-	-
Due from other governments	527,061	-	251,586	-
Due from Successor Agency	-	-	-	-
Inventory	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	-	-	-
Advances to other funds	-	-	-	-
<b>Total assets</b>	<b>\$ 693,832</b>	<b>\$ 24,585,547</b>	<b>\$ 1,657,207</b>	<b>\$ 10,530</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 17,110	\$ 384	\$ 70,315	\$ 33
Deposits payable	-	-	-	-
Retention payable	-	-	-	-
Accrued expenditures	36,353	-	-	-
Due to other funds	-	-	-	-
Unearned revenues	400,933	-	2,475,678	-
<b>Total liabilities</b>	<b>454,396</b>	<b>384</b>	<b>2,545,993</b>	<b>33</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenue	121,583	5,841,888	230,594	-
<b>Total deferred inflows of resources</b>	<b>121,583</b>	<b>5,841,888</b>	<b>230,594</b>	<b>-</b>
<b>Fund balances:</b>				
Nonspendable	-	-	-	-
Restricted	117,853	18,743,275	-	10,497
Committed	-	-	-	-
Unassigned (deficit)	-	-	(1,119,380)	-
<b>Total fund balances</b>	<b>117,853</b>	<b>18,743,275</b>	<b>(1,119,380)</b>	<b>10,497</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 693,832</b>	<b>\$ 24,585,547</b>	<b>\$ 1,657,207</b>	<b>\$ 10,530</b>

**CITY OF ESCONDIDO**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	Debt Service		Capital Projects	
	General Obligation	Golf Course	Street Improvement	Storm Drain
<b>ASSETS</b>				
Cash and investments	\$ 4,301,030	\$ -	\$ 3,521,885	\$ 747,780
Cash and investments with fiscal agent	-	81	-	-
Receivable:				
Accounts	-	-	-	-
Interest	13,024	107	13,034	2,695
Taxes	44,133	-	-	-
Loans	-	-	-	-
Due from other governments	-	-	643,043	-
Due from Successor Agency	-	-	-	-
Inventory	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	-	-	-
Advances to other funds	-	-	200,000	-
<b>Total assets</b>	<b>\$ 4,358,187</b>	<b>\$ 188</b>	<b>\$ 4,377,962</b>	<b>\$ 750,475</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 750	\$ -	\$ 203,687	\$ 2,560
Deposits payable	-	-	2,556,551	21,375
Retention payable	-	-	-	-
Accrued expenditures	-	-	-	-
Due to other funds	-	1,475	-	-
Unearned revenues	-	-	-	-
<b>Total liabilities</b>	<b>750</b>	<b>1,475</b>	<b>2,760,238</b>	<b>23,935</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenue	-	-	253,267	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>253,267</b>	<b>-</b>
<b>Fund balances:</b>				
Nonspendable	-	-	-	-
Restricted	4,357,437	-	1,364,457	726,540
Committed	-	-	-	-
Unassigned (deficit)	-	(1,287)	-	-
<b>Total fund balances</b>	<b>4,357,437</b>	<b>(1,287)</b>	<b>1,364,457</b>	<b>726,540</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 4,358,187</b>	<b>\$ 188</b>	<b>\$ 4,377,962</b>	<b>\$ 750,475</b>

**CITY OF ESCONDIDO**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	Capital Projects			Permanent
	General Capital Projects	County Transportation Street Projects	Public Facilities	Daley Ranch
<b>ASSETS</b>				
Cash and investments	\$ 1,270,408	\$ -	\$ 6,958,895	\$ 355,116
Cash and investments with fiscal agent	-	-	-	-
Receivable:				
Accounts	-	-	6,452	-
Interest	4,535	-	26,448	1,347
Taxes	-	-	-	-
Loans	-	-	266,048	-
Due from other governments	-	2,753,366	-	-
Due from Successor Agency	-	-	-	-
Inventory	-	-	-	-
Prepaid items	-	-	-	-
Deposits	-	-	-	-
Advances to other funds	-	-	-	-
<b>Total assets</b>	<b>\$ 1,274,943</b>	<b>\$ 2,753,366</b>	<b>\$ 7,257,843</b>	<b>\$ 356,463</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 80,423	\$ 1,266,409	\$ 54,144	\$ -
Deposits payable	44,117	-	-	-
Retention payable	-	379,158	-	-
Accrued expenditures	-	-	-	-
Due to other funds	-	1,116,712	-	-
Unearned revenues	-	-	-	-
<b>Total liabilities</b>	<b>124,540</b>	<b>2,762,279</b>	<b>54,144</b>	<b>-</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenue	-	223,366	-	-
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>223,366</b>	<b>-</b>	<b>-</b>
<b>Fund balances:</b>				
Nonspendable	-	-	-	250,034
Restricted	385,540	-	7,203,699	106,429
Committed	764,863	-	-	-
Unassigned (deficit)	-	(232,279)	-	-
<b>Total fund balances</b>	<b>1,150,403</b>	<b>(232,279)</b>	<b>7,203,699</b>	<b>356,463</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,274,943</b>	<b>\$ 2,753,366</b>	<b>\$ 7,257,843</b>	<b>\$ 356,463</b>

**CITY OF ESCONDIDO**  
**Combining Balance Sheet (Continued)**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	Total Nonmajor Governmental Funds
<b>ASSETS</b>	
Cash and investments	\$ 36,624,035
Cash and investments with fiscal agent	81
Receivable:	
Accounts	9,311
Interest	5,969,345
Taxes	46,340
Loans	17,730,711
Due from other governments	4,801,244
Due from Successor Agency	1,018,427
Inventory	32,376
Prepaid items	11,761
Deposits	119,194
Advances to other funds	200,000
<b>Total assets</b>	<b>\$ 66,562,825</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	
<b>Liabilities:</b>	
Accounts payable	\$ 2,943,852
Deposits payable	2,622,043
Retention payable	379,158
Accrued expenditures	98,557
Due to other funds	1,239,077
Unearned revenues	2,876,611
<b>Total liabilities</b>	<b>10,159,298</b>
<b>Deferred inflows of resources:</b>	
Unavailable revenue	8,094,770
<b>Total deferred inflows of resources</b>	<b>8,094,770</b>
<b>Fund balances:</b>	
Nonspendable	294,171
Restricted	48,765,758
Committed	764,863
Unassigned (deficit)	(1,516,035)
<b>Total fund balances</b>	<b>48,308,757</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 66,562,825</b>

**CITY OF ESCONDIDO**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2020**

	Special Revenue			
	Street	Community Services and Development	Community Development Block Grant	Landscape and Assessment District
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Intergovernmental	5,970,688	706,064	1,119,980	-
Charges for services	661,879	876,251	-	-
Special assessments	-	-	-	852,395
Investment income	272,775	179,411	1,642	31,775
Miscellaneous	171,712	70	7,518	8,430
<b>Total revenues</b>	<u>7,077,054</u>	<u>1,761,796</u>	<u>1,129,140</u>	<u>892,600</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	2,324,091	-	-	742,080
Community services	-	1,236,712	608,457	-
Community development	-	613	221,500	-
Capital outlay	1,613,565	262,840	468,886	-
Debt services:				
Principal retirements	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>3,937,656</u>	<u>1,500,165</u>	<u>1,298,843</u>	<u>742,080</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>3,139,398</u>	<u>261,631</u>	<u>(169,703)</u>	<u>150,520</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	1,016,015	-	-
Transfers out	(2,055,000)	(30,000)	-	-
<b>Total other financing sources (uses)</b>	<u>(2,055,000)</u>	<u>986,015</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,084,398	1,247,646	(169,703)	150,520
<b>FUND BALANCES:</b>				
Beginning of year	7,851,164	3,989,130	6,614	1,471,310
End of year	<u>\$ 8,935,562</u>	<u>\$ 5,236,776</u>	<u>\$ (163,089)</u>	<u>\$ 1,621,830</u>

**CITY OF ESCONDIDO**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)**

**Nonmajor Governmental Funds**

**For the Year Ended June 30, 2020**

	Special Revenue			
	Law Enforcement	HOME	Miscellaneous Grants	Vehicle Parking District
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Intergovernmental	2,175,520	187,360	345,590	
Charges for services	-	-	-	-
Special assessments	-	-	-	-
Investment income	11,250	79,844	-	330
Miscellaneous	-	-	-	-
<b>Total revenues</b>	<u>2,186,770</u>	<u>267,204</u>	<u>345,590</u>	<u>330</u>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	1,147,700	-
Public safety	2,003,771	-	-	-
Public works	-	-	-	99,093
Community services	-	-	242,377	-
Community development	-	48,745	29,800	-
Capital outlay	15,000	-	-	-
Debt services:				
Principal retirements	-	-	-	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<u>2,018,771</u>	<u>48,745</u>	<u>1,419,877</u>	<u>99,093</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>167,999</u>	<u>218,459</u>	<u>(1,074,287)</u>	<u>(98,763)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	101,120
Transfers out	-	-	(717,340)	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(717,340)</u>	<u>101,120</u>
<b>NET CHANGE IN FUND BALANCES</b>	167,999	218,459	(1,791,627)	2,357
<b>FUND BALANCES:</b>				
Beginning of year	(50,146)	18,524,816	672,247	8,140
End of year	<u>\$ 117,853</u>	<u>\$ 18,743,275</u>	<u>\$ (1,119,380)</u>	<u>\$ 10,497</u>

# CITY OF ESCONDIDO

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

### Nonmajor Governmental Funds For the Year Ended June 30, 2020

	Debt Service		Capital Projects	
	General Obligation	Golf Course	Street Improvement	Storm Drain
<b>REVENUES:</b>				
Property taxes	\$ 4,686,979	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Intergovernmental	-	-	2,174,850	-
Charges for services	-	-	-	132,332
Special assessments	-	-	-	-
Investment income	126,663	183	125,528	15,654
Miscellaneous	-	-	-	-
<b>Total revenues</b>	4,813,642	183	2,300,378	147,986
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	354,382	38,963
Community services	-	-	-	-
Community development	-	-	-	-
Capital outlay	-	-	1,021,033	61,914
Debt services:				
Principal retirements	1,965,000	245,000	-	-
Interest and fiscal charges	2,795,000	120,552	-	-
<b>Total expenditures</b>	4,760,000	365,552	1,375,415	100,877
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	53,642	(365,369)	924,963	47,109
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	336,595	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	-	336,595	-	-
<b>NET CHANGE IN FUND BALANCES</b>	53,642	(28,774)	924,963	47,109
<b>FUND BALANCES:</b>				
Beginning of year	4,303,795	27,487	439,494	679,431
End of year	\$ 4,357,437	\$ (1,287)	\$ 1,364,457	\$ 726,540

# CITY OF ESCONDIDO

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

### Nonmajor Governmental Funds For the Year Ended June 30, 2020

	Capital Projects			Permanent
	General Capital Projects	County Transportation Street Projects	Public Facilities	Daley Ranch
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	6,155,718	-	-
Intergovernmental	170,735	352,039	-	-
Charges for services	-	-	437,322	1,012
Special assessments	-	-	-	-
Investment income	27,760	1,224	277,650	7,890
Miscellaneous	-	-	-	-
<b>Total revenues</b>	198,495	6,508,981	714,972	8,902
<b>EXPENDITURES:</b>				
Current:				
General government	87,880	-	4,420	-
Public safety	-	-	57,714	-
Public works	11,725	3,265,747	-	-
Community services	20,813	-	274,010	-
Community development	195,404	-	-	-
Capital outlay	203,783	3,632,090	644,598	-
Debt services:				
Principal retirements	-	-	71,024	-
Interest and fiscal charges	-	-	15,087	-
<b>Total expenditures</b>	519,605	6,897,837	1,066,853	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(321,110)	(388,856)	(351,881)	8,902
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	195,000	-	-	-
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	195,000	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	(126,110)	(388,856)	(351,881)	8,902
<b>FUND BALANCES:</b>				
Beginning of year	1,276,513	156,577	7,555,580	347,561
End of year	\$ 1,150,403	\$ (232,279)	\$ 7,203,699	\$ 356,463

# CITY OF ESCONDIDO

## Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

### Nonmajor Governmental Funds For the Year Ended June 30, 2020

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	Total Nonmajor Governmental Funds
<b>REVENUES:</b>	
Property taxes	\$ 4,686,979
Other taxes	6,155,718
Intergovernmental	13,202,826
Charges for services	2,108,796
Special assessments	852,395
Investment income	1,159,579
Miscellaneous	187,730
<b>Total revenues</b>	<u>28,354,023</u>
<b>EXPENDITURES:</b>	
Current:	
General government	1,240,000
Public safety	2,061,485
Public works	6,836,081
Community services	2,382,369
Community development	496,062
Capital outlay	7,923,709
Debt services:	
Principal retirements	2,281,024
Interest and fiscal charges	2,930,639
<b>Total expenditures</b>	<u>26,151,369</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>2,202,654</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	1,648,730
Transfers out	(2,802,340)
<b>Total other financing sources (uses)</b>	<u>(1,153,610)</u>
<b>NET CHANGE IN FUND BALANCES</b>	1,049,044
<b>FUND BALANCES:</b>	
Beginning of year	<u>47,259,713</u>
End of year	<u>\$ 48,308,757</u>

**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, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Intergovernmental	\$ 6,487,000	\$ 5,970,688	\$ (516,312)
Charges for services	1,808,000	661,879	(1,146,121)
Investment income	124,800	272,775	147,975
Miscellaneous	-	171,712	171,712
<b>Total revenues</b>	<b>8,419,800</b>	<b>7,077,054</b>	<b>(1,342,746)</b>
<b>EXPENDITURES:</b>			
Current:			
Public works	12,006,936	2,324,091	(9,682,845)
Capital outlay	2,535,094	1,613,565	(921,529)
<b>Total expenditures</b>	<b>14,542,030</b>	<b>3,937,656</b>	<b>(10,604,374)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(6,122,230)</b>	<b>3,139,398</b>	<b>(9,261,628)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(2,055,000)	(2,055,000)	-
<b>Total other financing sources (uses)</b>	<b>(2,055,000)</b>	<b>(2,055,000)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(8,177,230)</b>	<b>1,084,398</b>	<b>(9,261,628)</b>
<b>FUND BALANCE:</b>			
Beginning of year	7,851,164	7,851,164	-
End of year	<b>\$ (326,066)</b>	<b>\$ 8,935,562</b>	<b>\$ (9,261,628)</b>

**CITY OF ESCONDIDO**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Community Services and Development Special Revenue Fund**  
**For the Year Ended June 30, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Intergovernmental	\$ 612,880	\$ 706,064	\$ 93,184
Charges for services	1,456,885	876,251	(580,634)
Investment income	67,500	179,411	111,911
<b>Total revenues</b>	<u>2,137,265</u>	<u>1,761,796</u>	<u>(375,469)</u>
<b>EXPENDITURES:</b>			
Current:			
Community services	1,338,190	1,236,712	(101,478)
Capital outlay	5,655,390	262,840	(5,392,550)
<b>Total expenditures</b>	<u>6,993,580</u>	<u>1,500,165</u>	<u>(5,493,415)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(4,856,315)</u>	<u>261,631</u>	<u>(5,117,946)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,016,015	1,016,015	-
Transfers out	(30,000)	(30,000)	-
<b>Total other financing sources (uses)</b>	<u>986,015</u>	<u>986,015</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,870,300)	1,247,646	(5,117,946)
<b>FUND BALANCE:</b>			
Beginning of year	3,989,130	3,989,130	-
End of year	<u>\$ 118,830</u>	<u>\$ 5,236,776</u>	<u>\$ (5,117,946)</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, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Intergovernmental	\$ 2,894,504	\$ 1,119,980	\$ (1,774,524)
Miscellaneous	-	7,518	7,518
<b>Total revenues</b>	<u>2,894,504</u>	<u>1,129,140</u>	<u>(1,765,364)</u>
<b>EXPENDITURES:</b>			
Current:			
Community services	2,093,989	608,457	(1,485,532)
Community development	230,000	221,500	(8,500)
Capital outlay	1,998,630	468,886	(1,529,744)
<b>Total expenditures</b>	<u>4,322,619</u>	<u>1,298,843</u>	<u>(3,023,776)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(1,428,115)</u>	<u>(169,703)</u>	<u>(1,258,412)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(1,428,115)	(169,703)	(1,258,412)
<b>FUND BALANCE:</b>			
Beginning of year	6,614	6,614	-
End of year	<u>\$ (1,421,501)</u>	<u>\$ (163,089)</u>	<u>\$ (1,258,412)</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, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Special assessments	\$ 857,610	\$ 852,395	\$ (5,215)
Investment income	-	31,775	31,775
Miscellaneous	8,430	8,430	-
<b>Total revenues</b>	<u>866,040</u>	<u>892,600</u>	<u>26,560</u>
<b>EXPENDITURES:</b>			
Current:			
Public works	1,247,395	742,080	(505,315)
<b>Total expenditures</b>	<u>1,247,395</u>	<u>742,080</u>	<u>(505,315)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(381,355)</u>	<u>150,520</u>	<u>(531,875)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(381,355)	150,520	(531,875)
<b>FUND BALANCE:</b>			
Beginning of year	1,471,310	1,471,310	-
End of year	<u>\$ 1,089,955</u>	<u>\$ 1,621,830</u>	<u>\$ (531,875)</u>

**CITY OF ESCONDIDO**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Law Enforcement Special Revenue Fund**  
**For the Year Ended June 30, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Intergovernmental	\$ 2,162,680	\$ 2,175,520	\$ 12,840
Investment income	-	11,250	11,250
<b>Total revenues</b>	<u>2,162,680</u>	<u>2,186,770</u>	<u>24,090</u>
<b>EXPENDITURES:</b>			
Current:			
Public safety	5,303,965	2,003,771	(3,300,194)
Capital outlay	15,000	15,000	-
<b>Total expenditures</b>	<u>5,318,965</u>	<u>2,018,771</u>	<u>(3,300,194)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(3,156,285)</u>	<u>167,999</u>	<u>(3,276,104)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,156,285)	167,999	(3,276,104)
<b>FUND BALANCE:</b>			
Beginning of year	(50,146)	(50,146)	-
End of year	<u>\$ (3,206,431)</u>	<u>\$ 117,853</u>	<u>\$ (3,276,104)</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, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Intergovernmental	\$ 596,820	\$ 187,360	\$ (409,460)
Investment income	-	79,844	79,844
<b>Total revenues</b>	<u>596,820</u>	<u>267,204</u>	<u>(329,616)</u>
<b>EXPENDITURES:</b>			
Current:			
Community development	69,660	48,745	(20,915)
<b>Total expenditures</b>	<u>69,660</u>	<u>48,745</u>	<u>(20,915)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>527,160</u>	<u>218,459</u>	<u>(350,531)</u>
<b>NET CHANGE IN FUND BALANCE</b>	527,160	218,459	(350,531)
<b>FUND BALANCE:</b>			
Beginning of year	18,524,816	18,524,816	-
End of year	<u>\$ 19,051,976</u>	<u>\$ 18,743,275</u>	<u>\$ (350,531)</u>

**CITY OF ESCONDIDO**  
**Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**Miscellaneous Grants Special Revenue Fund**  
**For the Year Ended June 30, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Intergovernmental	\$ 3,457,579	\$ 345,590	\$ (3,111,989)
<b>Total revenues</b>	<u>3,457,579</u>	<u>345,590</u>	<u>(3,111,989)</u>
<b>EXPENDITURES:</b>			
Current:			
General government	4,680,333	1,147,700	(3,532,633)
Community services	947,837	242,377	(705,460)
Community development	310,000	29,800	(280,200)
<b>Total expenditures</b>	<u>5,938,170</u>	<u>1,419,877</u>	<u>(4,518,293)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(2,480,591)</u>	<u>(1,074,287)</u>	<u>(1,406,304)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(717,340)	(717,340)	-
<b>Total other financing sources (uses)</b>	<u>(717,340)</u>	<u>(717,340)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(3,197,931)	(1,791,627)	(1,406,304)
<b>FUND BALANCE:</b>			
Beginning of year	672,247	672,247	-
End of year	<u>\$ (2,525,684)</u>	<u>\$ (1,119,380)</u>	<u>\$ (1,406,304)</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, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Investment income	\$ -	\$ 330	\$ 330
<b>Total revenues</b>	<b>-</b>	<b>330</b>	<b>330</b>
<b>EXPENDITURES:</b>			
Current:			
Public works	101,120	99,093	(2,027)
<b>Total expenditures</b>	<b>101,120</b>	<b>99,093</b>	<b>(2,027)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(101,120)</b>	<b>(98,763)</b>	<b>(2,357)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	101,120	101,120	-
<b>Total other financing sources (uses)</b>	<b>101,120</b>	<b>101,120</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>2,357</b>	<b>(2,357)</b>
<b>FUND BALANCE:</b>			
Beginning of year	8,140	8,140	-
End of year	\$ 8,140	\$ 10,497	\$ (2,357)

**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, 2020**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>REVENUES:</b>			
Property taxes	\$ 4,727,225	\$ 4,686,979	\$ (40,246)
Investment income	33,200	126,663	93,463
<b>Total revenues</b>	<u>4,760,425</u>	<u>4,813,642</u>	<u>53,217</u>
<b>EXPENDITURES:</b>			
Debt services:			
Principal retirements	1,965,000	1,965,000	-
Interest and fiscal charges	2,795,425	2,795,000	(425)
<b>Total expenditures</b>	<u>4,760,425</u>	<u>4,760,000</u>	<u>(425)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>53,642</u>	<u>(53,642)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	53,642	(53,642)
<b>FUND BALANCE:</b>			
Beginning of year	4,303,795	4,303,795	-
End of year	<u>\$ 4,303,795</u>	<u>\$ 4,357,437</u>	<u>\$ (53,642)</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, 2020**

	Final Budget Amounts	Actual	Variance Over Under
<b>REVENUES:</b>			
Investment income	\$ 100	\$ 183	\$ 83
<b>Total revenues</b>	<u>100</u>	<u>183</u>	<u>83</u>
<b>EXPENDITURES:</b>			
Debt services:			
Principal retirements	245,000	245,000	-
Interest and fiscal charges	120,695	120,552	(143)
<b>Total expenditures</b>	<u>365,695</u>	<u>365,552</u>	<u>(143)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(365,595)</u>	<u>(365,369)</u>	<u>(226)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	336,595	336,595	-
<b>Total other financing sources (uses)</b>	<u>336,595</u>	<u>336,595</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(29,000)	(28,774)	(226)
<b>FUND BALANCE:</b>			
Beginning of year	27,487	27,487	-
End of year	<u>\$ (1,513)</u>	<u>\$ (1,287)</u>	<u>\$ (226)</u>

## **CITY OF ESCONDIDO INTERNAL SERVICE FUNDS**

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### **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.

### **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 a central stores warehouse as well as postage, telephone, and copying services. Funding is provided through charges to other departments based on actual usage.

### **NETWORK AND SYSTEMS ADMINISTRATION FUND**

This fund was created to account for financial activity related to Network & Systems Administration 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.

### **INSURANCE FUND**

This fund was created to account for transactions related to:

- The provision of health, vision, dental, and life insurance for City employees. Funding is provided through charges to other departments and employee contributions based on employee participation.
- 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 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, 2020**

	<u>Building Maintenance</u>	<u>Vehicle and Equipment Maintenance</u>	<u>Central Services</u>	<u>Network and Systems Administration</u>
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and investments	\$ 649,568	\$ 8,116,273	\$ 641,779	\$ 405,761
Receivables (Net):				
Accounts	770	-	-	-
Interest	2,398	29,846	2,388	1,718
Inventory	57,610	54,184	413,798	-
Deposits	-	-	-	-
<b>Total Current Assets</b>	<u>710,346</u>	<u>8,200,303</u>	<u>1,057,965</u>	<u>407,479</u>
<b>Noncurrent Assets:</b>				
Capital assets:				
Being depreciated, net	2,439,102	6,567,317	13,194	285,146
<b>Total Noncurrent Assets</b>	<u>2,439,102</u>	<u>6,567,317</u>	<u>13,194</u>	<u>285,146</u>
<b>Total Assets</b>	<u>3,149,448</u>	<u>14,767,620</u>	<u>1,071,159</u>	<u>692,625</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions	487,865	300,801	108,579	306,819
<b>Total Deferred Outflows of Resources</b>	<u>487,865</u>	<u>300,801</u>	<u>108,579</u>	<u>306,819</u>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	437,513	297,620	125,789	14,184
Accrued expenses	67,203	32,318	7,108	39,132
Long-term debt, due within one year	114,880	194,071	1,523	-
<b>Total Current Liabilities</b>	<u>619,596</u>	<u>524,009</u>	<u>134,420</u>	<u>53,316</u>
<b>Noncurrent Liabilities:</b>				
Aggregate net pension liabilities	3,984,391	2,567,541	767,807	2,629,200
Long-term debt, due in more than one year	219,290	81,226	13,705	-
<b>Total Noncurrent Liabilities</b>	<u>4,203,681</u>	<u>2,648,767</u>	<u>781,512</u>	<u>2,629,200</u>
<b>Total Liabilities</b>	<u>4,823,277</u>	<u>3,172,776</u>	<u>915,932</u>	<u>2,682,516</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions	68,446	36,985	11,562	44,410
<b>Total Deferred Inflows of Resources</b>	<u>68,446</u>	<u>36,985</u>	<u>11,562</u>	<u>44,410</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,439,102	6,382,271	13,194	285,146
Unrestricted (deficit)	(3,693,512)	5,476,389	239,050	(2,012,628)
<b>Total Net Position</b>	<u>\$ (1,254,410)</u>	<u>\$ 11,858,660</u>	<u>\$ 252,244</u>	<u>\$ (1,727,482)</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Net Position (Continued)**  
**Internal Service Funds**  
**June 30, 2020**

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and investments	\$ 11,850,684	\$ 6,770,816	\$ 1,495,732	\$ 29,930,613
Receivables (Net):				
Accounts	-	-	51,420	52,190
Interest	42,159	25,339	6,213	110,061
Inventory	-	-	-	525,592
Deposits	250,000	-	62,600	312,600
<b>Total Current Assets</b>	<b>12,142,843</b>	<b>6,796,155</b>	<b>1,615,965</b>	<b>30,931,056</b>
<b>Noncurrent Assets:</b>				
Capital assets:				
Being depreciated, net	-	-	-	9,304,759
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,304,759</b>
<b>Total Assets</b>	<b>12,142,843</b>	<b>6,796,155</b>	<b>1,615,965</b>	<b>40,235,815</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions	30,072	-	67,946	1,302,082
<b>Total Deferred Outflows of Resources</b>	<b>30,072</b>	<b>-</b>	<b>67,946</b>	<b>1,302,082</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	115,453	75,654	(767,511)	298,702
Accrued expenses	3,034	-	47,310	196,105
Long-term debt, due within one year	2,900,974	674,520	1,580	3,887,548
<b>Total Current Liabilities</b>	<b>3,019,461</b>	<b>750,174</b>	<b>(718,621)</b>	<b>4,382,355</b>
<b>Noncurrent Liabilities:</b>				
Aggregate net pension liabilities	247,471	-	510,567	10,706,977
Long-term debt, due in more than one year	11,605,768	2,698,080	14,222	14,632,291
<b>Total Noncurrent Liabilities</b>	<b>11,853,239</b>	<b>2,698,080</b>	<b>524,789</b>	<b>25,339,268</b>
<b>Total Liabilities</b>	<b>14,872,700</b>	<b>3,448,254</b>	<b>(193,832)</b>	<b>29,721,623</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions	4,262	-	9,898	175,563
<b>Total Deferred Inflows of Resources</b>	<b>4,262</b>	<b>-</b>	<b>9,898</b>	<b>175,563</b>
<b>NET POSITION</b>				
Net investment in capital assets	-	-	-	9,119,713
Unrestricted (deficit)	(2,704,047)	3,347,901	1,867,845	2,520,998
<b>Total Net Position</b>	<b>\$ (2,704,047)</b>	<b>\$ 3,347,901</b>	<b>\$ 1,867,845</b>	<b>\$ 11,640,711</b>

**CITY OF ESCONDIDO**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Internal Service Funds**  
**For the Year Ended June 30, 2020**

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services	Network and Systems Administration
<b>Operating Revenues:</b>				
Charges for services	\$ 5,247,020	\$ 5,987,440	\$ 1,245,157	\$ 1,736,500
<b>Total Operating Revenues</b>	<u>5,247,020</u>	<u>5,987,440</u>	<u>1,245,157</u>	<u>1,736,500</u>
<b>Operating Expenses:</b>				
Personnel services	2,562,993	1,474,316	422,351	1,449,913
Administrative expenses	-	8,933	82,051	-
Benefit claims	-	-	-	-
Supplies	93,542	80,345	97,579	12,132
Repairs and maintenance	1,180,373	1,009,567	53,399	6,241
Depreciation	128,994	2,500,763	17,122	52,334
Utilities	1,071,963	4,944	261,866	11,416
Fuel	-	1,148,642	-	-
Professional services	1,636,626	55,684	224,152	32,579
Insurance premiums	51,115	39,390	14,295	14,450
Rent	382	-	-	-
Other	(1,142,680)	343,383	68,798	372,781
<b>Total Operating Expenses</b>	<u>5,583,308</u>	<u>6,665,967</u>	<u>1,241,613</u>	<u>1,951,846</u>
<b>Operating Income (Loss)</b>	<u>(336,288)</u>	<u>(678,527)</u>	<u>3,544</u>	<u>(215,346)</u>
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	24,677	309,353	15,729	18,334
Interest and fiscal charges	(10,927)	(10,507)	-	-
Miscellaneous	5,055	207,002	-	-
<b>Total Nonoperating Revenues (Expenses)</b>	<u>18,805</u>	<u>505,848</u>	<u>15,729</u>	<u>18,334</u>
<b>Income Before Transfers and Capital Contributions</b>	<u>(317,483)</u>	<u>(172,679)</u>	<u>19,273</u>	<u>(197,012)</u>
Transfers in	306,000	-	-	-
Transfers (out)	-	-	-	-
Capital Contributions:				
Developer contributions	11,346	669,421	-	-
<b>Total Transfers and Capital Contributions</b>	<u>317,346</u>	<u>669,421</u>	<u>-</u>	<u>-</u>
<b>Changes in Net Position</b>	<u>(137)</u>	<u>496,742</u>	<u>19,273</u>	<u>(197,012)</u>
<b>Net Position at Beginning of Year</b>	<u>(1,254,273)</u>	<u>11,361,918</u>	<u>232,971</u>	<u>(1,530,470)</u>
<b>Net Position at End of Year</b>	<u>\$ (1,254,410)</u>	<u>\$ 11,858,660</u>	<u>\$ 252,244</u>	<u>\$ (1,727,482)</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, 2020**

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 4,247,462	\$ 2,149,206	\$ 11,938,427	\$ 32,551,212
<b>Total Operating Revenues</b>	<u>4,247,462</u>	<u>2,149,206</u>	<u>11,938,427</u>	<u>32,551,212</u>
<b>Operating Expenses:</b>				
Personnel services	137,197	-	327,564	6,374,334
Administrative expenses	328,035	1,469,865	166,090	2,054,974
Benefit claims	307,452	1,115,510	509,618	1,932,580
Supplies	753	-	1,223	285,574
Repairs and maintenance	-	-	-	2,249,580
Depreciation	-	-	-	2,699,213
Utilities	1,224	-	11,715	1,363,128
Fuel	-	-	-	1,148,642
Professional services	2,470,156	264,808	147,170	4,831,175
Insurance premiums	822,241	1,046,758	10,532,142	12,520,391
Rent	-	-	-	382
Other	2,722	12,231	60,541	(282,224)
<b>Total Operating Expenses</b>	<u>4,069,780</u>	<u>3,909,172</u>	<u>11,756,063</u>	<u>35,177,749</u>
<b>Operating Income (Loss)</b>	<u>177,682</u>	<u>(1,759,966)</u>	<u>182,364</u>	<u>(2,626,537)</u>
<b>Nonoperating Revenues (Expenses):</b>				
Investment income	424,996	248,406	33,769	1,075,264
Interest and fiscal charges	-	-	-	(21,434)
Miscellaneous	1,300,000	73,964	78,763	1,664,784
<b>Total Nonoperating Revenues (Expenses)</b>	<u>1,724,996</u>	<u>322,370</u>	<u>112,532</u>	<u>2,718,614</u>
<b>Income Before Transfers and Capital Contributions</b>	<u>1,902,678</u>	<u>(1,437,596)</u>	<u>294,896</u>	<u>92,077</u>
Transfers in	500,000	-	-	806,000
Transfers (out)	-	-	-	-
Capital Contributions:				
Developer contributions	-	-	-	680,767
<b>Total Transfers and Capital Contributions</b>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>1,486,767</u>
<b>Changes in Net Position</b>	<u>2,402,678</u>	<u>(1,437,596)</u>	<u>294,896</u>	<u>1,578,844</u>
<b>Net Position at Beginning of Year</b>	<u>(5,106,725)</u>	<u>4,785,497</u>	<u>1,572,949</u>	<u>10,061,867</u>
<b>Net Position at End of Year</b>	<u>\$ (2,704,047)</u>	<u>\$ 3,347,901</u>	<u>\$ 1,867,845</u>	<u>\$ 11,640,711</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2020**

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services	Network and Systems Administration
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 5,246,369	\$ 5,997,440	\$ 1,245,157	\$ 1,736,500
Cash paid to employees for services	(2,242,574)	(1,272,276)	(452,167)	(1,282,556)
Cash paid to other suppliers of goods and services	(2,791,740)	(2,553,378)	(745,297)	(447,979)
Cash from other sources	5,055	51,175	-	-
<b>Net Cash Provided by Operating Activities</b>	<u>217,110</u>	<u>2,222,961</u>	<u>47,693</u>	<u>5,965</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Cash received from other funds	306,000	-	-	-
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<u>306,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Purchase and construction of capital assets	(1,225,556)	(1,732,245)	(5,313)	(139,517)
Sale of capital assets	-	155,827	-	-
Capital lease payment	-	(190,374)	-	-
Principal payments on loans	(98,256)	-	-	-
Interest payments on loans	(10,929)	-	-	-
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<u>(1,334,741)</u>	<u>(1,766,792)</u>	<u>(5,313)</u>	<u>(139,517)</u>
<b>Cash Flows from Investing Activities:</b>				
Investment income	29,370	319,029	15,906	19,568
<b>Net Cash Provided by Investing Activities</b>	<u>29,370</u>	<u>319,029</u>	<u>15,906</u>	<u>19,568</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(782,261)	775,198	58,286	(113,984)
<b>Cash and cash equivalents:</b>				
Beginning of year	1,431,829	7,341,075	583,493	519,745
End of year	<u>\$ 649,568</u>	<u>\$ 8,116,273</u>	<u>\$ 641,779</u>	<u>\$ 405,761</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Cash Flows (Continued)**  
**Internal Service Funds**  
**For the Year Ended June 30, 2020**

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 4,247,462	\$ 2,149,206	\$ 11,930,840	\$ 32,552,974
Cash paid to employees for services	(452,916)	(1,469,865)	(449,833)	(7,622,187)
Cash paid to other suppliers of goods and services	(3,910,764)	(1,825,510)	(12,164,586)	(24,439,254)
Cash from other sources	1,300,000	73,964	78,763	1,508,957
<b>Net Cash Provided by Operating Activities</b>	<b>1,183,782</b>	<b>(1,072,205)</b>	<b>(604,816)</b>	<b>2,000,490</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Cash received from other funds	500,000	-	-	806,000
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>806,000</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Purchase and construction of capital assets	-	-	-	(3,102,631)
Sale of capital assets	-	-	-	155,827
Capital lease payment	-	-	-	(190,374)
Principal payments on loans	-	-	-	(98,256)
Interest payments on loans	-	-	-	(10,929)
<b>Net Cash (Used in) Capital and Related Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,246,363)</b>
<b>Cash Flows from Investing Activities:</b>				
Investment income	433,430	262,675	36,048	1,116,026
<b>Net Cash Provided by Investing Activities</b>	<b>433,430</b>	<b>262,675</b>	<b>36,048</b>	<b>1,116,026</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,117,212</b>	<b>(809,530)</b>	<b>(568,768)</b>	<b>676,153</b>
<b>Cash and cash equivalents:</b>				
Beginning of year	9,733,472	7,580,346	2,064,500	29,254,460
End of year	<b>\$ 11,850,684</b>	<b>\$ 6,770,816</b>	<b>\$ 1,495,732</b>	<b>\$ 29,930,613</b>

**CITY OF ESCONDIDO**  
**Combining Statement of Cash Flows (Continued)**  
**Internal Service Funds**  
**For the Year Ended June 30, 2020**

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services	Office Automation
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ (336,286)	\$ (678,525)	\$ 3,544	\$ (215,346)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	128,994	2,500,763	17,122	52,334
Pension expense	272,917	182,745	54,321	156,113
Cash from other sources	5,055	51,175	-	-
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:				
Accounts receivable	(651)	10,000	-	-
Inventories	4,306	45,019	(45,635)	-
Accounts payable	95,273	83,556	20,427	1,620
Accrued expenses	18,781	4,712	(656)	11,244
Compensated absences	28,721	23,516	(1,430)	-
Estimated claims payable	-	-	-	-
Total adjustments	<u>553,396</u>	<u>2,901,486</u>	<u>44,149</u>	<u>221,311</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ 217,110</u>	<u>\$ 2,222,961</u>	<u>\$ 47,693</u>	<u>\$ 5,965</u>
<b>Noncash Investing, Capital and Financing Activities:</b>				
Contributed property, plant and equipment	\$ 11,346	\$ 669,421	\$ -	\$ -
<b>Total noncash investing, capital and financing activities</b>	<u>\$ 11,346</u>	<u>\$ 669,421</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Cash Flows (Continued)**  
**Internal Service Funds**  
**For the Year Ended June 30, 2020**

	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>				
Operating income (loss)	\$ 177,682	\$ (1,759,966)	\$ 182,364	\$ (2,626,533)
Adjustment to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	-	-	-	2,699,213
Pension expense	11,123	-	32,943	710,162
Cash from other sources	1,300,000	73,964	78,763	1,508,957
Changes in assets, deferred outflows of resources, deferred inflows of resources, and liabilities:				
Accounts receivable	-	-	(7,587)	1,762
Inventories	-	-	-	3,690
Accounts payable	(26,216)	71,997	(900,015)	(653,358)
Accrued expenses	452	-	1,827	36,360
Compensated absences	741	-	6,889	58,437
Estimated claims payable	(280,000)	541,800	-	261,800
Total adjustments	<u>1,006,100</u>	<u>687,761</u>	<u>(787,180)</u>	<u>4,627,023</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 1,183,782</u>	<u>\$ (1,072,205)</u>	<u>\$ (604,816)</u>	<u>\$ 2,000,490</u>
<b>Noncash Investing, Capital and Financing Activities:</b>				
Contributed property, plant and equipment	\$ -	\$ -	\$ -	\$ 680,767
<b>Total noncash investing, capital and financing activities</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 680,767</u>

**CITY OF ESCONDIDO**  
**AGENCY FUNDS**

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**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.

**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, 2020**

	Hidden Trails Community Facilities District	Eureka Ranch Community Facilities District	Rancho San Pasqual	Total
<b>ASSETS</b>				
Cash and investments	\$ 172,682	\$ 798,636	\$ 277,525	\$ 1,248,843
Cash and investments with fiscal agent	-	146	353,503	353,649
Receivables:				
Taxes	1,097	5,317	1,236	7,650
Interest	(501)	2,334	799	2,632
<b>Total assets</b>	<b>\$ 173,278</b>	<b>\$ 806,433</b>	<b>\$ 633,063</b>	<b>\$ 1,612,774</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 1,020	\$ -	\$ 1,020
Deposits payable	-	805,413	-	805,413
Due to bondholders	173,278	-	633,063	806,341
<b>Total liabilities</b>	<b>\$ 173,278</b>	<b>\$ 806,433</b>	<b>\$ 633,063</b>	<b>\$ 1,612,774</b>

**CITY OF ESCONDIDO**  
**Combining Statement of Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2020**

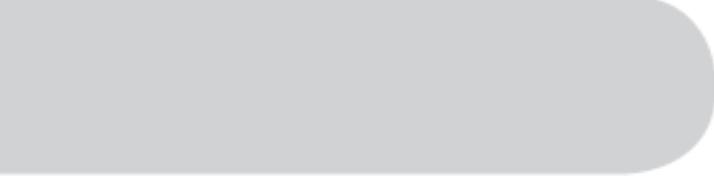
	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
<b><u>Hidden Trails Community Facilities District</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 174,895	\$ 206,133	\$ (208,346)	\$ 172,682
Cash and investments with fiscal agent	15	63	(78)	-
Receivables:				
Taxes	1,267	536	(706)	1,097
Interest	557	60	(1,118)	(501)
<b>Total assets</b>	<b>\$ 176,734</b>	<b>\$ 206,792</b>	<b>\$ (210,248)</b>	<b>\$ 173,278</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 198,577	\$ (198,577)	\$ -
Due to bondholders	176,734	321,793	(325,249)	173,278
<b>Total liabilities</b>	<b>\$ 176,734</b>	<b>\$ 520,370</b>	<b>\$ (523,826)</b>	<b>\$ 173,278</b>
<b><u>Eureka Ranch Community Facilities District</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 792,194	\$ 1,068,540	\$ (1,062,098)	\$ 798,636
Cash and investments with fiscal agent	167	352	(373)	146
Receivables:				
Taxes	6,727	5,317	(6,727)	5,317
Interest	2,886	2,334	(2,886)	2,334
<b>Total assets</b>	<b>\$ 801,974</b>	<b>\$ 1,076,543</b>	<b>\$ (1,072,084)</b>	<b>\$ 806,433</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,540	\$ 1,044,612	\$ (1,045,132)	\$ 1,020
Due to bondholders	800,434	1,556,543	(1,551,564)	805,413
<b>Total liabilities</b>	<b>\$ 801,974</b>	<b>\$ 2,601,155</b>	<b>\$ (2,596,696)</b>	<b>\$ 806,433</b>

**CITY OF ESCONDIDO**  
**Combining Statement of Assets and Liabilities (Continued)**  
**Agency Funds**  
**For the Year Ended June 30, 2020**

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
<b><u>Auto Parkway Assessment District</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 6,526	\$ 68	\$ (6,594)	\$ -
<b>Total assets</b>	<b>\$ 6,526</b>	<b>\$ 68</b>	<b>\$ (6,594)</b>	<b>\$ -</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 960	\$ -	\$ (960)	\$ -
Due to bondholders	5,566	68	(5,634)	-
<b>Total liabilities</b>	<b>\$ 6,526</b>	<b>\$ 68</b>	<b>\$ (6,594)</b>	<b>\$ -</b>
<b><u>Rancho San Pasqual</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 293,489	\$ 335,626	\$ (351,590)	\$ 277,525
Cash and investments with fiscal agent	348,598	6,903	(1,998)	353,503
Receivables:				
Taxes	1,297	1,236	(1,297)	1,236
Interest	1,140	799	(1,140)	799
<b>Total assets</b>	<b>\$ 644,524</b>	<b>\$ 344,564</b>	<b>\$ (356,025)</b>	<b>\$ 633,063</b>
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ 346,930	\$ (346,930)	\$ -
Due to bondholders	644,524	573,683	(585,144)	633,063
<b>Total liabilities</b>	<b>\$ 644,524</b>	<b>\$ 920,613</b>	<b>\$ (932,074)</b>	<b>\$ 633,063</b>

**CITY OF ESCONDIDO**  
**Combining Statement of Assets and Liabilities (Continued)**  
**Agency Funds**  
**For the Year Ended June 30, 2020**

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
<b><u>Deposit Trust</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 10,913,800	\$ 2,588,910	\$ (13,502,710)	\$ -
Receivables:				
Interest	556	-	(556)	-
<b>Total assets</b>	<b><u>\$ 10,914,356</u></b>	<b><u>\$ 2,588,910</u></b>	<b><u>\$ (13,503,266)</u></b>	<b><u>\$ -</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 178,495	\$ 1,510,718	\$ (1,689,213)	\$ -
Deposits payable	10,735,861	2,979,420	(13,715,281)	-
<b>Total liabilities</b>	<b><u>\$ 10,914,356</u></b>	<b><u>\$ 4,490,138</u></b>	<b><u>\$ (15,404,494)</u></b>	<b><u>\$ -</u></b>
 <b><u>Total Agency Funds</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 12,180,904	\$ 4,199,277	\$ (15,131,338)	\$ 1,248,843
Cash and investments with fiscal agent	348,779	7,318	(2,449)	353,648
Receivables:				
Taxes	9,291	7,089	(8,730)	7,650
Interest	5,140	3,193	(5,700)	2,633
<b>Total assets</b>	<b><u>\$ 12,544,114</u></b>	<b><u>\$ 4,216,877</u></b>	<b><u>\$ (15,148,217)</u></b>	<b><u>\$ 1,612,774</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 180,995	\$ 3,100,837	\$ (3,280,812)	\$ 1,020
Deposits payable	10,735,861	2,979,420	(13,715,281)	-
Due to bondholders	1,627,258	2,452,087	(2,467,591)	1,611,754
<b>Total liabilities</b>	<b><u>\$ 12,544,114</u></b>	<b><u>\$ 8,532,344</u></b>	<b><u>\$ (19,463,684)</u></b>	<b><u>\$ 1,612,774</u></b>



# Statistical Section

# **CITY OF ESCONDIDO STATISTICAL SECTION**

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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)**

	2011	2012	2013	2014	2015
<b>Governmental Activities:</b>					
Net investment in capital assets	\$ 222,661,354	\$ 225,296,741	\$ 211,228,317	\$ 207,003,751	\$ 201,314,048
Restricted	86,393,247	98,970,485	90,152,311	92,356,580	90,509,538
Unrestricted	40,341,057	53,862,572	27,922,604	24,555,904	(124,495,479)
<b>Total Governmental Activities Net Position</b>	<b>\$ 349,395,658</b>	<b>\$ 378,129,798</b>	<b>\$ 329,303,232</b>	<b>\$ 323,916,235</b>	<b>\$ 167,328,107</b>
<b>Business-type Activities:</b>					
Net investment in capital assets	\$ 137,189,496	\$ 138,580,703	\$ 141,057,087	\$ 151,539,613	\$ 158,231,376
Restricted	-	-	-	-	-
Unrestricted	53,436,660	56,358,559	61,147,031	57,540,105	28,819,831
<b>Total Business-type Activities Net Position</b>	<b>\$ 190,626,156</b>	<b>\$ 194,939,262</b>	<b>\$ 202,204,118</b>	<b>\$ 209,079,718</b>	<b>\$ 187,051,207</b>
<b>Primary Government:</b>					
Net investment in capital assets	\$ 359,850,850	\$ 363,877,444	\$ 352,285,404	\$ 358,543,364	\$ 359,545,424
Restricted	86,393,247	98,970,485	90,152,311	92,356,580	90,509,538
Unrestricted	93,777,717	110,221,131	89,069,635	82,096,009	(95,675,648)
<b>Total Primary Government Activities Net Position</b>	<b>\$ 540,021,814</b>	<b>\$ 573,069,060</b>	<b>\$ 531,507,350</b>	<b>\$ 532,995,953</b>	<b>\$ 354,379,314</b>

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)**

	2016	2017	2018	2019	2020
<b>Governmental Activities:</b>					
Net investment in capital assets	\$ 223,906,554	\$ 218,477,270	\$ 218,992,174	\$ 218,870,698	\$ 221,761,230
Restricted	96,530,455	100,550,008	104,851,906	115,547,295	124,688,550
Unrestricted	(121,164,871)	(99,262,303)	(112,191,974)	(124,447,522)	(133,063,895)
<b>Total Governmental Activities Net Position</b>	<b>\$ 199,272,138</b>	<b>\$ 219,764,975</b>	<b>\$ 211,652,106</b>	<b>\$ 209,970,471</b>	<b>\$ 213,385,885</b>
<b>Business-type Activities:</b>					
Net investment in capital assets	\$ 172,888,190	\$ 188,875,729	\$ 183,764,968	\$ 195,706,168	\$ 184,746,125
Restricted	-	-	3,642,092	1,095,891	15,665,650
Unrestricted	22,072,596	9,234,771	21,293,844	20,679,543	25,669,085
<b>Total Business-type Activities Net Position</b>	<b>\$ 194,960,786</b>	<b>\$ 198,110,500</b>	<b>\$ 208,700,904</b>	<b>\$ 217,481,602</b>	<b>\$ 226,080,860</b>
<b>Primary Government:</b>					
Net investment in capital assets	\$ 396,794,744	\$ 407,352,999	\$ 402,757,142	\$ 414,576,866	\$ 406,507,355
Restricted	96,530,455	100,550,008	108,493,998	116,643,186	140,354,200
Unrestricted	(99,092,275)	(90,027,532)	(90,898,130)	(103,767,979)	(107,394,810)
<b>Total Primary Government Activities Net Position</b>	<b>\$ 394,232,924</b>	<b>\$ 417,875,475</b>	<b>\$ 420,353,010</b>	<b>\$ 427,452,073</b>	<b>\$ 439,466,745</b>

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)**

	2011	2012	2013	2014	2015
<u>Expenses</u>					
Governmental Activities:					
General government	\$ 8,162,775	\$ 7,923,896	\$ 6,931,282	\$ 6,817,120	\$ 6,412,164
Public safety	56,170,547	60,467,057	58,937,215	64,735,010	62,464,110
Community services	13,935,737	14,428,323	13,492,016	13,824,749	12,485,541
Public works	30,251,264	23,508,515	28,719,020	22,830,644	24,390,896
Community development	9,908,625	6,765,185	6,095,723	4,442,510	4,652,366
Interest and fiscal charges	7,459,498	5,946,168	4,038,630	3,709,135	4,655,972
Total Governmental Activities Expenses	125,888,446	119,039,144	122,533,177	116,359,168	115,061,049
Business-type Activities:					
Water	37,364,315	43,537,887	48,899,219	51,937,493	51,558,727
Wastewater	23,833,875	23,995,887	25,847,825	28,748,596	29,740,987
Total Business-type Activities Expenses	61,198,190	67,533,774	74,747,044	80,686,089	81,299,714
Total Primary Government Expenses	<u>\$ 187,086,636</u>	<u>\$ 186,572,918</u>	<u>\$ 197,280,221</u>	<u>\$ 197,045,257</u>	<u>\$ 196,360,763</u>
<u>Program Revenues</u>					
Governmental activities:					
Charges for services:					
General government	\$ 351,155	\$ 735,395	\$ 481,812	\$ 1,049,402	\$ 261,135
Public safety	8,273,579	8,429,675	8,322,729	8,217,629	9,450,880
Community services	3,871,455	4,158,173	4,118,332	4,104,210	4,042,601
Public works	994,907	1,160,643	1,261,705	1,554,453	1,292,959
Community development	1,154,371	820,337	914,370	1,351,882	1,615,495
Operating grants and contributions	12,988,723	13,503,657	12,507,289	13,031,177	9,216,428
Capital grants and contributions	10,550,030	5,608,064	8,528,675	3,331,901	2,855,849
Total Governmental Activities Program Revenues	38,184,220	34,415,944	36,134,912	32,640,654	28,735,347
Business-type Activities:					
Charges for services:					
Water	37,293,900	42,398,099	48,857,327	54,411,250	54,323,287
Wastewater	28,176,381	26,430,851	28,482,081	29,413,549	32,014,382
Operating grants and contributions	-	-	6,559	243,302	533,816
Capital grants and contributions	8,922,144	2,155,659	3,858,657	1,879,809	2,972,993
Total Business-type Activities Program Revenues	74,392,425	70,984,609	81,204,624	85,947,910	89,844,478
Total Primary Government Program Revenues	<u>\$ 112,576,645</u>	<u>\$ 105,400,553</u>	<u>\$ 117,339,536</u>	<u>\$ 118,588,564</u>	<u>\$ 118,579,825</u>

**CITY OF ESCONDIDO**  
**Changes in Net Position (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	2016	2017	2018	2019	2020
<u>Expenses</u>					
Governmental Activities:					
General government	\$ 8,852,170	\$ 9,357,787	\$ 11,319,840	\$ 11,594,163	\$ 14,133,562
Public safety	65,521,010	71,876,096	80,848,786	80,834,482	87,387,146
Community services	12,559,645	12,571,637	13,453,775	14,394,666	14,854,363
Public works	20,066,941	22,107,665	25,876,603	27,320,553	25,322,314
Community development	4,643,576	5,077,618	5,516,258	5,388,553	6,217,692
Interest and fiscal charges	2,952,792	2,646,232	2,849,950	2,695,321	2,552,817
Total Governmental Activities Expenses	114,596,134	123,637,035	139,865,212	142,227,738	150,467,894
Business-type Activities:					
Water	49,844,796	57,314,740	62,431,613	60,286,760	62,805,742
Wastewater	30,565,986	32,361,361	32,843,118	33,669,077	36,482,537
Total Business-type Activities Expenses	80,410,782	89,676,101	95,274,731	93,955,837	99,288,279
Total Primary Government Expenses	<u>\$ 195,006,916</u>	<u>\$ 213,313,136</u>	<u>\$ 235,139,943</u>	<u>\$ 236,183,575</u>	<u>\$ 249,756,173</u>
<u>Program Revenues</u>					
Governmental activities:					
Charges for services:					
General government	\$ 479,655	\$ 300,203	\$ 681,369	\$ 700,526	\$ 829,648
Public safety	9,292,514	10,251,178	11,190,662	11,701,922	11,433,902
Community services	3,807,474	3,739,242	3,634,653	3,668,178	2,522,517
Public works	2,280,973	2,424,590	1,738,505	2,276,458	2,466,849
Community development	1,811,997	1,973,600	1,763,863	1,501,441	3,387,612
Operating grants and contributions	10,604,522	9,441,222	9,980,538	15,008,732	12,072,370
Capital grants and contributions	4,787,949	6,622,075	9,564,799	7,654,270	6,812,806
Total Governmental Activities Program Revenues	33,065,084	34,752,110	38,554,389	42,511,527	39,525,704
Business-type Activities:					
Charges for services:					
Water	51,055,900	55,442,545	61,551,122	57,495,553	60,636,276
Wastewater	33,594,079	34,166,698	34,464,076	35,780,554	36,064,926
Operating grants and contributions	70,130	30,832	143,298	152,007	75,098
Capital grants and contributions	1,355,692	1,766,559	7,846,908	4,859,530	6,374,790
Total Business-type Activities Program Revenues	86,075,801	91,406,634	104,005,404	98,287,644	103,151,090
Total Primary Government Program Revenues	<u>\$ 119,140,885</u>	<u>\$ 126,158,744</u>	<u>\$ 142,559,793</u>	<u>\$ 140,799,171</u>	<u>\$ 142,676,794</u>

(Continued)

**CITY OF ESCONDIDO**  
**Changes in Net Position (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	2011	2012	2013	2014	2015
<u>Net (Expense)/Revenue</u>					
Governmental activities	\$ (87,704,226)	\$ (84,623,200)	\$ (86,398,265)	\$ (83,718,514)	\$ (86,325,702)
Business-type activities	13,194,235	3,450,835	6,457,580	5,261,821	8,544,764
<b>Total Primary Government</b>					
Net Expense	<u>\$ (74,509,991)</u>	<u>\$ (81,172,365)</u>	<u>\$ (79,940,685)</u>	<u>\$ (78,456,693)</u>	<u>\$ (77,780,938)</u>
<u>General Revenues and Other</u>					
<u>Changes in Net Position</u>					
Governmental activities:					
Taxes:					
Sales taxes	\$ 20,819,517	\$ 25,532,055	\$ 24,202,373	\$ 27,366,084	\$ 29,447,205
Property taxes	28,168,365	24,060,363	16,738,501	16,805,289	16,953,228
Franchise tax	4,461,129	4,563,576	4,516,247	4,694,252	5,147,696
Payments in lieu of taxes	17,652,114	19,548,954	19,041,332	20,075,228	20,531,727
Other taxes	4,048,337	2,899,789	3,971,585	4,218,914	4,411,676
Use of money and property	4,810,578	5,885,611	3,290,477	4,153,899	4,309,471
Sale of capital assets	171,386	399,819	-	-	138,304
Miscellaneous	476,135	748,181	1,070,052	892,851	362,066
Transfers	1,248,845	25,000	25,000	125,000	(54,620)
Extraordinary item:					
Gain/(loss)	-	29,693,992	(34,948,363)	-	-
<b>Total Governmental Activities</b>	<u>81,856,406</u>	<u>113,357,340</u>	<u>37,907,204</u>	<u>78,331,517</u>	<u>81,246,753</u>
Business-type activities:					
Use of money and property	1,608,420	1,750,475	1,522,495	1,577,693	1,699,516
Miscellaneous	297,338	250,862	447,638	161,086	176,720
Transfers	(1,248,845)	(25,000)	(25,000)	(125,000)	54,620
Extraordinary item:					
Loss on chemical tank spill	-	(1,114,066)	-	-	-
<b>Total Business-type Activities</b>	<u>656,913</u>	<u>862,271</u>	<u>1,945,133</u>	<u>1,613,779</u>	<u>1,930,856</u>
<b>Total Primary Government</b>	<u>\$ 82,513,319</u>	<u>\$ 114,219,611</u>	<u>\$ 39,852,337</u>	<u>\$ 79,945,296</u>	<u>\$ 83,177,609</u>
<u>Change in Net Position</u>					
Governmental activities	\$ (5,847,820)	\$ 28,734,140	\$ (48,491,061)	\$ (5,386,997)	\$ (5,078,949)
Business-type activities	13,851,148	4,313,106	8,402,713	6,875,600	10,475,620
<b>Total primary government</b>	<u>\$ 8,003,328</u>	<u>\$ 33,047,246</u>	<u>\$ (40,088,348)</u>	<u>\$ 1,488,603</u>	<u>\$ 5,396,671</u>

Source:

City of Escondido Finance Department.

**CITY OF ESCONDIDO**  
**Changes in Net Position (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	2016	2017	2018	2019	2020
<u>Net (Expense)/Revenue</u>					
Governmental activities	\$ (81,531,050)	\$ (88,884,925)	\$ (101,310,823)	\$ (99,716,211)	\$ (110,939,190)
Business-type activities	5,665,019	1,730,533	9,112,999	4,331,807	3,862,811
Total Primary Government Net Expense	<u>\$ (75,866,031)</u>	<u>\$ (87,154,392)</u>	<u>\$ (92,197,824)</u>	<u>\$ (95,384,404)</u>	<u>\$ (107,076,379)</u>
<u>General Revenues and Other</u> <u>Changes in Net Position</u>					
Governmental activities:					
Taxes:					
Sales taxes	\$ 32,080,999	\$ 37,905,908	\$ 42,100,337	\$ 44,601,539	\$ 42,665,081
Property taxes	17,039,019	17,779,603	19,968,848	20,665,489	21,704,880
Franchise tax	6,110,634	4,997,491	6,673,212	6,083,566	6,093,168
Payments in lieu of taxes	18,648,743	13,680,629	13,140,350	13,906,639	14,631,684
Other taxes	4,616,524	5,026,190	4,352,631	4,454,434	4,626,355
Use of money and property	4,445,175	4,353,656	4,903,198	7,221,048	7,414,032
Sale of capital assets	173,750	-	1,449,580	465,008	14,935,539
Miscellaneous	564,129	3,249,318	559,798	581,853	2,118,865
Transfers	25,000	25,000	50,000	25,000	195,000
Extraordinary item: Gain/(loss)	30,722,560	22,359,967	-	-	-
Total Governmental Activities	<u>114,426,533</u>	<u>109,377,762</u>	<u>93,197,954</u>	<u>98,004,576</u>	<u>114,384,604</u>
Business-type activities:					
Use of money and property	2,043,040	1,338,109	1,350,539	4,078,342	4,210,650
Miscellaneous	226,520	106,072	176,866	395,549	720,797
Transfers	(25,000)	(25,000)	(50,000)	(25,000)	(195,000)
Extraordinary item: Loss on chemical tank spill	-	-	-	-	-
Total Business-type Activities	<u>2,244,560</u>	<u>1,419,181</u>	<u>1,477,405</u>	<u>4,448,891</u>	<u>4,736,447</u>
Total Primary Government	<u>\$ 116,671,093</u>	<u>\$ 110,796,943</u>	<u>\$ 94,675,359</u>	<u>\$ 102,453,467</u>	<u>\$ 119,121,051</u>
<u>Change in Net Position</u>					
Governmental activities	\$ 31,944,031	\$ 20,492,837	\$ (8,112,869)	\$ (1,711,635)	\$ 3,445,414
Business-type activities	7,909,579	3,149,714	10,590,404	8,780,698	8,599,258
Total primary government	<u>\$ 39,853,610</u>	<u>\$ 23,642,551</u>	<u>\$ 2,477,535</u>	<u>\$ 7,069,063</u>	<u>\$ 12,044,672</u>

Source:

City of Escondido Finance Department.

**CITY OF ESCONDIDO**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	2011	2012	2013	2014	2015
<b>General Fund</b>					
Nonspendable	\$ 5,456,377	\$ 5,180,347	\$ 2,503,401	\$ 217,690	\$ 183,403
Restricted	-	-	-	-	-
Committed to	28,354,588	31,938,244	17,210,596	17,319,659	17,281,659
Assigned to	713,361	852,481	980,678	897,465	681,822
Unassigned	399,790	753,121	247,130	1,753,519	-
<b>Total General Fund</b>	<b>\$ 34,924,116</b>	<b>\$38,724,193</b>	<b>\$20,941,805</b>	<b>\$20,188,333</b>	<b>\$18,146,884</b>
<b>All Other Governmental Funds</b>					
Nonspendable	\$ 61,204,587	\$57,982,791	\$60,199,844	\$ -	\$ -
Restricted for	21,732,085	30,695,122	20,785,893	81,559,045	78,261,012
Committed to	8,418,117	5,208,585	2,466,775	2,008,525	1,860,686
Assigned to	774,990	447,148	159,405	139,653	488
Unassigned	(14,547,286)	(1,021,715)	(1,248,533)	(1,149,954)	(1,184,683)
<b>Total All Other Governmental Funds</b>	<b>\$ 77,582,493</b>	<b>\$93,311,931</b>	<b>\$82,363,384</b>	<b>\$82,557,269</b>	<b>\$78,937,503</b>

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)**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<b>General Fund</b>					
Nonspendable	\$ 179,185	\$ 9,991,902	\$ 9,991,902	\$ 5,187,424	\$ 1,865,098
Restricted	-	-	1,997,186	7,013,035	13,572,027
Committed to	16,892,319	17,921,319	17,392,319	17,392,319	17,392,319
Assigned to	941,262	1,541,101	1,762,773	2,297,428	2,364,520
Unassigned	1,961,211	1,712,930	2,839,620	1,888,896	1,894,735
<b>Total General Fund</b>	<b><u>\$19,973,977</u></b>	<b><u>\$31,167,252</u></b>	<b><u>\$33,983,800</u></b>	<b><u>\$33,779,102</u></b>	<b><u>\$37,088,699</u></b>
<b>All Other Governmental Funds</b>					
Nonspendable	\$ -	\$ 333,590	\$ 373,620	\$ 282,173	\$ 294,171
Restricted for	84,682,384	86,075,428	87,811,164	90,532,465	93,753,131
Committed to	984,157	1,656,212	698,161	796,697	764,863
Assigned to	-	-	-	-	-
Unassigned	(846,790)	(1,354,541)	(1,347,939)	(50,146)	(1,516,035)
<b>Total All Other Governmental Funds</b>	<b><u>\$84,819,751</u></b>	<b><u>\$86,710,689</u></b>	<b><u>\$87,535,006</u></b>	<b><u>\$91,561,189</u></b>	<b><u>\$93,296,130</u></b>

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)**

	2011	2012	2013	2014	2015
<b><u>Revenues</u></b>					
Taxes	\$ 69,907,949	\$ 65,556,779	\$ 53,387,010	\$ 57,289,455	\$ 59,989,511
Licenses and permits	1,193,338	821,380	887,383	991,164	862,280
Fines and forfeits	1,895,447	1,640,528	1,468,309	1,184,292	1,151,366
Intergovernmental	26,688,728	27,513,328	25,945,352	23,708,589	22,900,854
Charges for services	9,976,316	10,281,595	11,335,203	12,513,585	13,670,047
Special assessments	5,759,888	5,892,241	5,958,662	5,796,337	5,970,331
Lease income	75,321	60,024	221,513	205,259	203,599
Investment income	16,367,414	1,469,849	856,466	895,826	941,778
Miscellaneous	4,253,232	4,432,737	4,645,031	4,265,979	4,544,360
<b>Total Revenues</b>	<b>136,117,633</b>	<b>117,668,461</b>	<b>104,704,929</b>	<b>106,850,486</b>	<b>110,234,126</b>
<b><u>Expenditures</u></b>					
General government	7,096,148	6,407,543	5,834,828	5,811,016	6,086,111
Public safety	52,038,011	53,083,126	55,246,097	57,874,021	61,843,630
Public works	18,146,072	12,542,175	17,392,655	15,189,340	17,407,197
Community services	12,072,344	12,016,459	11,815,547	12,128,504	11,744,673
Community development	7,165,632	4,774,106	5,331,818	4,238,194	4,585,497
Contributions to other governments	-	-	4,319,291	-	-
Capital outlay	26,536,515	9,153,723	7,794,450	5,550,440	2,966,301
Debt service:					
Principal retirements	10,760,000	10,512,620	7,528,360	2,528,361	74,848,007
Interest and fiscal charges	23,952,729	5,792,921	3,983,078	3,737,237	5,637,963
SERAF payment	1,761,576	-	-	-	-
Agency tax sharing agreement	9,101,406	5,921,213	-	-	-
<b>Total Expenditures</b>	<b>168,630,433</b>	<b>120,203,886</b>	<b>119,246,124</b>	<b>107,057,113</b>	<b>185,119,379</b>
Excess (Deficiency) of Revenues Over Expenditures	<b>(32,512,800)</b>	<b>(2,535,425)</b>	<b>(14,541,195)</b>	<b>(206,627)</b>	<b>(74,885,253)</b>
<b><u>Other Financing Sources (Uses)</u></b>					
Issuance of debt	-	224,078	4,830,000	-	70,660,479
Bond issue costs	-	-	(122,073)	-	-
Sale of capital assets	463,018	474,819	111,234	1,346,540	138,304
Transfers in	28,486,232	8,237,198	6,522,962	5,035,243	3,173,695
Transfers out	(25,059,387)	(8,062,198)	(6,673,765)	(6,734,743)	(4,748,440)
<b>Total Other Financing Sources (Uses)</b>	<b>3,889,863</b>	<b>873,897</b>	<b>4,668,358</b>	<b>(352,960)</b>	<b>69,224,038</b>
Special item:					
Extraordinary item: Gain/(loss)	-	21,191,043	(9,832,652)	-	-
<b>Net Change in Fund Balance</b>	<b>\$ (28,622,937)</b>	<b>\$ 19,529,515</b>	<b>\$ (19,705,489)</b>	<b>\$ (559,587)</b>	<b>\$ (5,661,215)</b>
Debt service as a percentage of noncapital expenditures	24.4%	14.7%	10.3%	6.2%	5.4%

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)**

	2016	2017	2018	2019	2020
<b><u>Revenues</u></b>					
Taxes	\$ 64,220,119	\$ 62,296,112	\$ 86,246,378	\$ 89,722,666	\$ 89,863,291
Licenses and permits	934,455	1,222,686	1,183,587	888,019	923,125
Fines and forfeits	1,344,221	1,186,276	1,076,387	1,257,729	1,122,485
Intergovernmental	24,648,821	23,485,944	17,091,365	18,031,912	16,966,436
Charges for services	13,509,208	16,154,072	16,305,361	15,438,111	14,314,208
Special assessments	5,567,955	5,589,696	797,529	831,574	852,395
Lease income	3,502,021	3,632,770	3,951,092	3,998,929	3,828,840
Investment income	1,245,689	540,184	481,733	3,130,835	3,585,146
Miscellaneous	1,574,553	2,298,139	467,910	824,270	2,109,526
<b>Total Revenues</b>	<b>116,547,042</b>	<b>116,405,879</b>	<b>127,601,342</b>	<b>134,124,045</b>	<b>133,565,452</b>
<b><u>Expenditures</u></b>					
General government	6,447,372	6,251,493	6,212,196	6,404,132	7,953,939
Public safety	64,266,503	65,038,985	67,917,569	70,183,327	73,271,168
Public works	14,442,206	16,592,694	20,020,822	20,583,634	19,157,773
Community services	12,080,978	11,825,028	12,096,472	12,982,171	12,278,475
Community development	4,985,006	5,078,286	4,944,488	4,777,498	5,386,850
Contributions to other governments	-	-	-	-	-
Capital outlay	3,919,203	6,084,281	10,522,490	7,606,834	8,155,234
Debt service:					
Principal retirements	243,360	1,592,870	2,616,218	2,702,509	2,817,359
Interest and fiscal charges	2,351,824	3,235,906	3,216,739	3,133,810	3,024,656
SERAF payment	-	-	-	-	-
Agency tax sharing agreement	-	-	-	-	-
<b>Total Expenditures</b>	<b>108,736,452</b>	<b>115,699,543</b>	<b>127,546,994</b>	<b>128,373,915</b>	<b>132,045,454</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>7,810,590</b>	<b>706,336</b>	<b>54,348</b>	<b>5,750,130</b>	<b>1,519,998</b>
<b><u>Other Financing Sources (Uses)</u></b>					
Issuance of debt	-	3,230,225	2,095,893	-	-
Bond issue costs	-	-	-	-	-
Sale of capital assets	173,751	-	1,724,580	-	4,135,540.00
Transfers in	2,968,322	3,765,952	5,615,293	4,056,429	4,440,745
Transfers out	(3,243,322)	(4,450,952)	(5,849,248)	(5,985,074)	(5,051,745)
<b>Total Other Financing Sources (Uses)</b>	<b>(101,249)</b>	<b>2,545,225</b>	<b>3,586,518</b>	<b>(1,928,645)</b>	<b>3,524,540</b>
Special item:					
Extraordinary item: Gain/(loss)	-	9,832,652	-	-	-
<b>Net Change in Fund Balance</b>	<b>\$ 7,709,341</b>	<b>\$ 13,084,213</b>	<b>\$ 3,640,866</b>	<b>\$ 3,821,485</b>	<b>\$ 5,044,538</b>
<b>Debt service as a percentage of noncapital expenditures</b>	<b>2.5%</b>	<b>4.4%</b>	<b>5.0%</b>	<b>4.8%</b>	<b>4.7%</b>

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 <sup>(1)</sup>				
	Residential	Commercial	Industrial	Other	Total
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
2019	12,122,763,897	2,353,765,429	885,053,468	544,401,944	15,905,984,738
2020	12,738,506,790	2,494,247,128	967,956,954	560,934,076	16,761,644,948

Fiscal Year Ended June 30	Unsecured	Less: Exemptions	Taxable	Total
			Assessed Value	Direct Tax Rate
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
2019	559,432,166	(809,077,827)	15,656,339,077	0.103
2020	563,144,195	(842,196,425)	16,482,592,718	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			Total	Voter Approved Debt	Total Tax Rate
			School District	San Diego County	All Other			
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
2019	0.103	0.103	0.710	0.157	0.030	1.000	0.141	1.141
2020	0.103	0.103	0.710	0.157	0.030	1.000	0.115	1.115

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	2020			2011		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value <sup>(1)</sup>	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value <sup>(2)</sup>
North County Fair LLC	\$234,076,173	1	1.42 %	\$172,640,288	1	1.50 %
Eagle Rose Owner LLC	90,342,286	2	0.55			
Casav Del LLC	70,617,760	3	0.43			
Latitude Del LLC	63,027,364	4	0.38			
Morningview Terrace Apts Ca	50,896,365	5	0.31			
Frit Escondido Promenade L L C	50,560,143	6	0.31			
Luna Properties LLC	42,481,130	7	0.26	53,311,785	3	0.46
Stone Brewing Co	42,090,011	8	0.26			
Brixmor Felicita Town Center LLC	41,720,031	9	0.25			
Clear Sky Escondido Lp	39,441,367	10	0.24			
						0.00
Prebys Conrad Trust 12-17-82				72,908,960	2	0.63
Cox Communications California				44,932,044	4	0.39
Realty Associates Fund Viii L				36,191,353	5	0.31
Vons				35,314,763	6	0.31
Garrick Motors Inc				35,256,606	7	0.31
P K I Del Norte Plaza L P				34,770,795	8	0.30
O C/S D Holdings L L C				34,680,948	9	0.30
Goal Line				34,406,913	10	0.30
<b>TOTAL</b>	<b>\$725,252,630</b>		<b>4.41 %</b>	<b>\$554,414,455</b>		<b>4.81 %</b>

Notes:

(1) Net assessed valuation for 2019-20 is \$16,482,592,718

(2) Net assessed valuation for 2010-11 is \$11,533,970,803

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
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
2019	13,245,889	12,990,223	98.07	142,712	13,132,935	99.15
2020	13,847,297	13,519,216	97.63	164,192	13,683,408	98.82

Notes:

The amounts presented do not include property taxes collected for the Community Development Commission in the following amounts: 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**  
**Top 25 Sales Tax Producers**  
**Current Year and Nine Years Ago**

2020		2011	
Business Name	Business Category	Business Name	Business Category
7-Eleven Food Stores	Food Markets	Apple Stores	Furniture/Appliance
Apple Stores	Furniture/Appliance	Apro	Energy Sales
Arco AM/PM Mini Marts	Service Stations	Arco AM/PM Mini Marts	Service Stations
BMW Discount Parts	Auto Parts/Repair	BMW Discount Parts	Auto Parts/Repair
Carmax the Auto Superstore	Auto Sales - Used	Escondido Ready Mix Concrete	Bldg.Matls-Whsle
CM Distributors	Bldg.Matls-Whsle	Ford of Escondido	Auto Sales - New
Ford of Escondido	Auto Sales - New	Home Depot	Bldg.Matls-Retail
Home Depot	Bldg.Matls-Retail	Honda of Escondido	Auto Sales - New
Honda of Escondido	Auto Sales - New	J C Penney Company	Department Stores
Jack Powell Chrysler Jeep Dodge	Auto Sales - New	Jack Powell Chrysler Jeep Dodge	Auto Sales - New
Lexus Escondido	Auto Sales - New	Lexus Escondido	Auto Sales - New
Lowe's Home Centers	Bldg.Matls-Retail	Lowe's Home Centers	Bldg.Matls-Retail
Mercedes-Benz of Escondido	Auto Sales - New	Macy's Department Store	Department Stores
Volkswagen	Auto Sales - New	Mercedes-Benz of Escondido	Auto Sales - New
Mossy Nissan Escondido	Auto Sales - New	Mossy Nissan Escondido	Auto Sales - New
GMC	Auto Sales - New	Nordstrom Department Store	Department Stores
North County Kia	Auto Sales - New	North County Auto Center	Auto Parts/Repair
Quality Chevrolet	Auto Sales - New	GMC	Auto Sales - New
Shell Service Stations	Service Stations	Pine Tree Lumber	Bldg.Matls-Retail
Target Stores	Department Stores	Quality Chevrolet	Auto Sales - New
Toyota of Escondido	Auto Sales - New	Sears Roebuck & Company	Department Stores
United Oil Service Stations	Service Stations	Shell Service Stations	Service Stations
Vons Grocery Company	Food Markets	Target Stores	Department Stores
Vons Service Stations	Service Stations	Toyota of Escondido	Auto Sales - New
Wal Mart Stores	Department Stores	Vons Grocery Company	Food Markets

Notes:

State law does not allow disclosure of the top ten sales tax providers to the City

Firms Listed Alphabetically

Source:

Avenu Insights & Analytics

**CITY OF ESCONDIDO**  
**Taxable Sales by Category**  
**Last Ten Calendar Years (First Quarter)**

Category Name	2011Q1	2012Q1	2013Q1	2014Q1	2015Q1
Accommodation and Food Services	\$ 1,700,894	\$ 1,791,114	\$ 1,924,246	\$ 2,087,342	\$ 2,280,701
Agriculture, Forestry, Fishing and Hunting	209,481	503,874	254,009	249,628	290,060
Arts, Entertainment, and Recreation	15,729	15,329	12,717	8,242	8,529
Construction	754,325	771,308	788,798	841,707	1,005,290
Educational Services	17,139	22,956	21,194	20,477	26,579
Information	70,449	69,315	83,537	97,442	115,502
Manufacturing	465,349	532,702	561,461	555,285	514,324
Mining, Quarrying, and Oil and Gas Extraction	433,218	514,056	560,485	678,798	794,682
Other Services (except Public Administration)	338,315	346,590	337,847	361,661	377,518
Professional, Scientific, and Technical Services	147,452	336,130	221,079	106,241	100,298
Real Estate and Rental and Leasing	47,710	66,104	98,090	51,462	68,532
Retail Trade	16,739,183	18,938,971	20,634,496	21,440,509	22,192,869
Utilities	483,055	496,956	625,129	717,609	880,970
All Other NAICS Sectors	513,693	648,405	639,596	669,599	681,666
<b>Total</b>	<b>\$ 21,935,991</b>	<b>\$ 25,053,808</b>	<b>\$ 26,762,685</b>	<b>\$ 27,886,003</b>	<b>\$ 29,337,520</b>

Notes:

The data contained in this report is economic and therefore constantly changing as adjustments, fund transfers, late filings and audits are recorded.

The categories listed in previous reports were based on SBOE NAICS codes and have been updated to reflect current updated CDTFAs standards.

Source:

Avenu Insights & Analytics

**CITY OF ESCONDIDO**  
**Taxable Sales by Category (Continued)**  
**Last Ten Calendar Years (First Quarter)**

Category Name	2016Q1	2017Q1	2018Q1	2019Q1	2020Q1
Accommodation and Food Services	\$ 2,434,863	\$ 2,575,740	\$ 2,704,264	\$ 2,741,540	\$ 2,738,252
Agriculture, Forestry, Fishing and Hunting	315,544	416,622	405,777	530,134	593,366
Arts, Entertainment, and Recreation	8,839	8,704	8,573	8,728	8,947
Construction	1,369,214	1,411,679	1,738,685	1,727,064	2,085,870
Educational Services	25,383	27,853	25,986	27,566	21,771
Information	101,647	130,275	102,613	98,242	92,892
Manufacturing	519,751	589,326	640,012	631,798	665,612
Mining, Quarrying, and Oil and Gas Extraction	803,223	932,149	983,084	908,183	781,378
Other Services (except Public Administration)	412,186	427,924	429,889	455,927	459,031
Professional, Scientific, and Technical Services	108,201	102,656	102,691	94,348	91,560
Real Estate and Rental and Leasing	60,852	45,927	58,091	115,207	109,630
Retail Trade	22,962,673	22,918,989	23,197,146	23,055,690	22,613,738
Utilities	1,031,146	1,081,508	1,084,831	1,086,503	1,136,083
All Other NAICS Sectors	543,313	486,113	551,668	559,338	544,301
<b>Total</b>	<b>\$ 30,696,836</b>	<b>\$ 31,155,466</b>	<b>\$ 32,033,311</b>	<b>\$ 32,040,266</b>	<b>\$ 31,942,432</b>

Notes:

The data contained in this report is economic and therefore constantly changing as adjustments, fund transfers, late filings and audits are recorded.

The categories listed in previous reports were based on SBOE NAICS codes and have been updated to reflect current updated CDTFAs standards.

Source:

Avenu Insights & Analytics

**CITY OF ESCONDIDO**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Governmental Activities (1)						
	General Obligation Bonds	Lease Revenue Bonds (2)	Certificates of Participation	Tax Allocation Bonds (2)	Loans Payable	Capital Leases Payable	Total Governmental Activities
2011	\$ 79,624,925	\$ 57,531,971	\$ 2,295,000	\$ 4,033,736	\$ 6,246,320	-	\$ 149,731,952
2012	78,029,430	5,329,840	1,790,000	-	6,398,573	-	91,547,843
2013	76,368,935	4,839,703	1,240,000	-	994,926	-	83,443,564
2014	74,638,440	4,634,156	645,000	-	888,366	-	80,805,962
2015	70,635,357	4,423,610	-	-	779,130	1,046,067	76,884,164
2016	70,204,710	4,208,063	-	-	666,456	874,856	75,954,085
2017	68,714,064	3,987,516	-	-	3,496,159	709,677	76,907,416
2018	66,503,417	3,756,970	-	-	3,085,997	2,348,521	75,694,905
2019	64,202,770	3,521,423	-	-	2,674,999	1,892,577	72,291,769
2020	61,807,123	3,275,877	-	-	2,258,338	1,423,757	68,765,095

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

Sources:

City of Escondido Finance Department, Avenu Insights & Analytics, U.S. Census Bureau, 2010 American Community Survey.

**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			
2011	\$ 80,311,635	\$ 26,507,579	\$ 106,819,214	\$ 256,551,166	8.97	1,767
2012	122,155,764	24,715,177	146,870,941	238,418,784	7.80	1,632
2013	119,584,319	22,585,446	142,169,765	225,613,329	7.28	1,546
2014	116,557,874	20,448,701	137,006,575	217,812,537	6.65	1,481
2015	108,643,605	18,304,767	126,948,372	203,832,536	5.82	1,384
2016	105,583,563	16,153,467	121,737,030	197,691,115	5.95	1,311
2017	102,608,520	13,994,615	116,603,135	193,510,551	5.53	1,277
2018	99,543,476	11,839,768	111,383,244	187,078,149	5.03	1,235
2019	98,723,724	11,305,828	110,029,552	182,321,321	4.61	1,194
2020	95,525,438	30,391,080	125,916,518	194,681,613	4.72	1,272

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

Sources:

City of Escondido Finance Department, Avenu Insights & Analytics, U.S. Census Bureau, 2010 American Community Survey.

**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 <sup>(1)</sup>	Per Capita
	General Obligation Bonds	Certificates of Participation	Tax Allocation Bonds <sup>(2)</sup>	Total		
2011	79,624,925	2,295,000	4,033,736	85,953,661	0.74	592
2012	78,029,430	1,790,000	-	79,819,430	0.68	546
2013	76,368,935	1,240,000	-	77,608,935	0.67	532
2014	74,638,440	645,000	-	75,283,440	0.63	512
2015	70,635,357	-	-	70,635,357	0.56	480
2016	70,204,710	-	-	70,204,710	0.53	466
2017	68,714,064	-	-	68,714,064	0.50	454
2018	66,503,417	-	-	66,503,417	0.45	439
2019	64,202,770	-	-	64,202,770	0.41	420
2020	61,807,123	-	-	61,807,123	0.37	404

Notes:

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

Sources:

City of Escondido Finance Department  
Avenu Insights & Analytics

**CITY OF ESCONDIDO**  
**Direct and Overlapping Debt**  
**For the Year Ended June 30, 2020**

2019-20 Assessed Valuation		\$ 16,876,052,253	
Redevelopment Agency Incremental Valuation		3,545,445,969	
Adjusted Assessed Valuation		\$ 13,330,606,284	
	Percentage Applicable <sup>(1)</sup>	Outstanding Debt 6/30/20	Estimated Share of Overlapping Debt
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>			
Metropolitan Water District	0.543 %	\$ 37,300,000	\$ 202,539
Palomar Community College District	13.105	610,657,763	80,026,700
San Marcos Unified School District School	3.433	285,225,402	9,791,788
San Marcos Unified School District School Facilities Improvement District No. 1	2.165	683,194	14,791
Escondido Union High School District	76.740	82,891,473	63,610,916
Escondido Union School District	77.432	149,409,622	115,690,859
San Pasqual Union School District	56.413	154,114	86,940
Palomar Pomerado Hospital District	19.125	422,024,019	80,712,094
<b>City of Escondido</b>	<b>100.000</b>	<b>61,807,123</b>	<b>61,807,123</b>
City of Escondido Community Facilities District No. 2006-01	100.000	12,075,000	12,075,000
City of Escondido Hidden Trails Community Facilities District	100.000	1,730,000	1,730,000
City of Escondido 1915 Act Bonds	100.000	1,905,000	1,905,000
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>1,665,862,710</b>	<b>427,653,750</b>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
San Diego County General Fund Obligations	3.365	231,350,000	7,786,079
San Diego County Pension Obligation Bonds	3.402	456,040,000	15,512,245
San Diego County Superintendent of School Obligations	3.289	9,350,000	307,492
Palomar Community College District Certificates of Participation	16.725	1,675,000	280,147
San Marcos Unified School General Fund Obligations	3.608	75,119,715	2,709,956
Escondido Union High School District Certificates of Participation	50.346	82,855,000	41,713,910
Escondido Union School District Certificates of Participation	83.182	14,480,000	12,044,761
<b>City of Escondido General Fund Obligations</b>	<b>100.000</b>	<b>3,264,124</b>	<b>3,264,124</b>
<b>City of Escondido Lease Obligations</b>	<b>100.000</b>	<b>1,423,757</b>	<b>1,423,757</b>
<b>City of Escondido Loans Obligations</b>	<b>100.000</b>	<b>2,258,338</b>	<b>2,258,338</b>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT</b>		<b>877,815,934</b>	<b>87,300,809</b>
<b>TOTAL CITY DIRECT DEBT</b>			<b>\$ 6,946,219</b>
<b>TOTAL OVERLAPPING DEBT</b>			<b>\$ 508,008,340</b>
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>			<b>\$ 514,954,559 <sup>(2)</sup></b>

(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 2019-20 ASSESSED VALUATION:**

Total Overlapping Tax and Assessment Debt	3.21 %
<b>Combined Direct Debt (\$68,753,342)</b>	<b>0.05</b>
Combined Total Debt	3.86

**RATIOS TO REDEVELOPMENT SUCCESSOR AGENCY INCREMENTAL VALUATION (\$3,545,445,969):**

Total Overlapping Tax Increment Debt	0.23 %
--------------------------------------	--------

Source:

Avenu Insights & Analytics.

**CITY OF ESCONDIDO**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

	2011	2012	2013	2014	2015
Assessed valuation	\$ 9,501,563,129	\$9,663,353,864	\$9,674,335,352	\$9,841,518,516	\$10,389,492,632
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	2,375,390,782	2,415,838,466	2,418,583,838	2,460,379,629	2,597,373,158
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	356,308,617	362,375,770	362,787,576	369,056,944	389,605,974
Total Debt Applicable to Limit:					
General Obligation Bonds	78,860,000	77,295,000	75,665,000	73,965,000	61,520,000
Legal Debt Margin	<u>\$ 277,448,617</u>	<u>\$ 285,080,770</u>	<u>\$ 287,122,576</u>	<u>\$ 295,091,944</u>	<u>\$ 328,085,974</u>
Total Debt Applicable to the Limit as a Percentage of Debt Limit	22%	21%	21%	20%	16%

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**

	2016	2017	2018	2019	2020
Assessed valuation	\$10,901,050,697	\$11,397,164,781	\$12,065,097,152	\$12,707,545,218	\$13,330,606,284
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	2,725,262,674	2,849,291,195	3,016,274,288	3,176,886,305	3,332,651,571
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	408,789,401	427,393,679	452,441,143.20	476,532,945.68	499,897,735.65
Total Debt Applicable to Limit:					
General Obligation Bonds	61,520,000	60,460,000	58,680,000	56,810,000	61,807,123
Legal Debt Margin	<u>\$ 347,269,401</u>	<u>\$ 366,933,679</u>	<u>\$ 393,761,143</u>	<u>\$ 419,722,946</u>	<u>\$ 438,090,613</u>
Total Debt Applicable to the Limit as a Percentage of Debt Limit	15%	14%	13%	12%	12%

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	
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	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-

**2013A Lease Revenue Refunding Bonds**

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
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
2019	360,844	-	360,844	235,000	125,844	360,844	1.00
2020	363,644	-	363,644	245,000	118,644	363,644	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	
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	-	-	-	-	-	-	-
2019	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-

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	
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
2019	98,754,414	76,800,519	21,953,895	2,830,000	4,435,876	7,265,876	3.02
2020	102,086,780	79,333,184	22,753,596	2,950,000	3,588,839	6,538,839	3.48

**Special Assessment Debt - Hidden Trails**

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
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
2019	201,350	-	201,350	110,000	81,381	191,381	1.05
2020	206,133	-	206,133	110,000	78,356	188,356	1.09

**Special Assessment Debt - Eureka Ranch**

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2011	\$1,182,479	-	\$1,182,479	330,000.00	\$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
2019	1,044,975	-	1,044,975	460,000	576,200	1,036,200	1.01
2020	1,068,540	-	1,068,540	470,000	562,250	1,032,250	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**  
**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	
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
2019	327,091	-	327,091	315,000	8,859	323,859	1.01
2020	-	-	-	-	-	-	-

**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	
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
2019	353,023	-	353,023	205,000	126,968	331,968	1.06
2020	335,626	-	335,626	220,000	114,855	334,855	1.00

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 <sup>(1)</sup>	Personal Income (in millions) <sup>(2)</sup>	Per Capita Income <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
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
2018	152,739	3,960	25,919	2.7
2019	153,008	4,124	26,957	14.8

Notes:

The California Department of Finance demographics estimates now incorporate 2010 Census counts as the benchmark

(1) Population Projections are provided by the California Department of Finance Projections.

(2) Income Data is provided by the U.S. Census Bureau, 2010 American Community Survey.

(3) Unemployment Data is provided by the EDD's Bureau of Labor Statistics Department.

Sources:

Avenu Insights & Analytics, U.S. Census Bureau, 2010 American Community Survey.

**CITY OF ESCONDIDO**  
**Principal Employers**  
**Current Year and Nine Years Ago**

Employer	2020		2011	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Palomar Medical Center	2,416	3.56 %	2,689	3.96 %
Escondido Union School District	1,906	2.81	1,981	2.92
City of Escondido <sup>(1)</sup>	934	1.38	1,091	1.61
Escondido Union High School District	679	1.00	766	1.13
Bergelectric	504	0.74		
Home Depot	458	0.67	333	0.49
Toyota of Escondido	327	0.48		
Nemo's Bakery	310	0.46		
Henry's Avocado Corp	207	0.48	340	0.50
The Classical Academies (Escondido locations)	202	0.46		
San Diego Wild Animal Park			953	1.40
Nordstrom Inc			720	1.06
Welk Group Inc			465	0.68
Vons Grocery Store			391	0.58

Notes:

Results based on direct correspondence with city's local businesses.

Total City Labor Force provided by EDD Labor Force Data. Total City Labor Force in 2018-19 is 69,500

(1) Includes FT and PT employees

Sources:

Avenu Insights & Analytics.

2010-11 previously published CAFR

**CITY OF ESCONDIDO**  
**Full-time and Part-time City Employees by Function**  
**Last Ten Fiscal Years**  
**As of June 30**

Function	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
General Government	109	106	108	111	107	113	120	123	115	114
Public Safety	375	360	374	383	365	383	398	397	397	394
Public Works	143	151	154	148	140	118	111	107	105	111
Community Development	38	37	35	36	37	38	37	37	36	33
Community Services	224	216	225	206	174	168	167	94	105	71
Housing & Neighborhood Services	15	12	10	10	9	10	9	10	9	8
Water	118	118	114	114	118	115	117	115	121	121
Wastewater	75	73	71	82	78	73	73	71	72	75
Total	<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>	<u>960</u>	<u>927</u>

Source:

City of Escondido Finance Department.

**CITY OF ESCONDIDO**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

Function	2011	2012	2013	2014	2015
<b>Police:</b>					
Physical Arrests	7,617	7,032	5,988	5,740	4,923
Traffic Violations	13,811	13,054	9,782	8,454	8,528
Parking Violations	5,784	4,514	4,022	4,328	5,571
<b>Fire:</b>					
Number of Calls Answered	11,370	11,978	13,065	13,139	13,450
Number of Inspections Conducted	2,222	1,380	1,741	1,496	2,590
<b>Public Works<sup>(1)</sup>:</b>					
Street Resurfacing (miles)	9.5	3.0	19.3	18.6	44.0
<b>Parks and Recreation<sup>(2)</sup>:</b>					
Number of Recreation Classes	1,176	990	1,275	2,410	1,070
Number of Facility Rentals	1,125	995	2,541	1,975	1,770
Golf Rounds Played	95,020	95,934	95,528	97,094	94,917
<b>Water:</b>					
Number of Service Connections	26,489	26,502	26,508	26,536	26,567
Average Daily Consumption (gallons)	18,835,000	20,220,000	23,370,000	22,579,315	19,500,000
<b>Sewer:</b>					
Number of Service Connections	27,066	27,054	27,072	27,102	27,139
Average Daily Treatment (gallons)	12,900,000	12,730,000	12,630,000	12,100,000	11,900,000

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	2016	2017	2018	2019	2020
<b>Police:</b>					
Physical Arrests	5,114	5,533	5,763	5,491	5,074
Traffic Violations	7,038	6,912	5,779	7,221	5,300
Parking Violations	6,052	6,218	6,752	7,509	5,305
<b>Fire:</b>					
Number of Calls Answered	14,553	15,369	16,710	16,154	15,962
Number of Inspections Conducted	2,086	1,826	3,624	4,082	2,734
<b>Public Works<sup>(1)</sup>:</b>					
Street Resurfacing (miles)	63.5	67.0	94.0	98.0	71.0
<b>Parks and Recreation<sup>(2)</sup>:</b>					
Number of Recreation Classes	808	577	640	728	523
Number of Facility Rentals	1,857	3,056	3,482	3,000	2,860
Golf Rounds Played	99,130	97,394	99,817	96,709	90,173
<b>Water:</b>					
Number of Service Connections	26,617	26,694	26,884	27,052	27,078
Average Daily Consumption (gallons)	16,680,000	17,206,595	19,431,105	17,120,000	18,413,863
<b>Sewer:</b>					
Number of Service Connections	27,048	27,070	48,092	48,161	48,425
Average Daily Treatment (gallons)	11,700,000	12,600,000	12,300,000	13,400,000	13,876,317

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	2011	2012	2013	2014	2015
Police:					
Stations	1	1	1	1	1
Fire:					
Stations	7	7	7	7	7
Public Works:					
Streets (miles)	304.6	304.9	305.0	305.0	306.2
Streetlights	6,479	6,480	6,479	6,487	6,488
Traffic Signals	148	148	151	152	153
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)	430	430	431	431	423
Maximum Daily Plant Capacity (gallons)	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Sewer:					
Sanitary Sewers (miles)	352	355	363	379	374
Storm Drains (miles)	381	383	382	377	411
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	2016	2017	2018	2019	2020
<b>Police:</b>					
Stations	1	1	1	1	1
<b>Fire:</b>					
Stations	7	7	7	7	7
<b>Public Works:</b>					
Streets (miles)	307.4	323.0	363.8	331.0	298.0
Streetlights	6,489	6,489	6,489	6,635	6,635
Traffic Signals	155	155	155	165	165
<b>Parks and Recreation:</b>					
Parks	14	14	14	14	14
Community Centers	3	3	3	3	3
Golf Courses	2	2	2	2	2
<b>Water:</b>					
Water Mains (miles)	423	430	436	436	436
Maximum Daily Plant Capacity (gallons)	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
<b>Sewer:</b>					
Sanitary Sewers (miles)	380	380	389	389	367
Storm Drains (miles)	411	221	200	200	171
Maximum Daily Treatment Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000

Source:

City of Escondido.

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## APPENDIX B

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following is a summary of certain provisions of the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of the provisions thereof.*

#### DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Definitions. Unless the context otherwise requires, the terms defined in the Indenture 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.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Authorized Officer. The term "Authorized Officer" means, with respect to the City, the Mayor, the City Manager, any Deputy City Manager, the Director of Utilities, the Finance Director, the City Clerk or any other person designated as an Authorized Officer of the City by a Certificate of the City signed by the Mayor, the City Manager, any Deputy City Manager, the Director of Utilities, the Finance Director or the City Clerk and filed with the Trustee.

Bond Counsel. The term "Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

Bonds. The term "Bonds" means the 2021 Bonds, the 2015 Bonds and all other revenue bonds or notes of the City authorized, executed, issued and delivered by the City, the payments of which are payable from Net Revenues on a parity with the 2021 Bonds and the 2015 Bonds and which are secured by a pledge of and lien on Revenues as described in the Indenture.

Bond Year. The term "Bond Year" has the meaning that is given to such term in the Tax Certificate.

Business Day. The term "Business Day" means: (1) 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 (2) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms "Certificate," "Direction," "Request" and "Requisition" of the City mean a written certificate, direction, request or requisition signed in the name of the City by its Authorized Officer. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument will include the statements provided for therein.

City. The term "City" means the City of Escondido, a municipal corporation that is duly organized and existing under the general laws and Constitution of the State of California.

Claim. The term "Claim" means all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding.

Closing Date. The term "Closing Date" means the date on which the 2021 Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Certificate. The term “Continuing Disclosure Certificate” means the Continuing Disclosure Certificate dated the Closing Date, executed by the City relating to the 2021 Bonds, as originally executed or as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term “Contracts” means the SWRCB Agreements and all other contracts of the City previously or later authorized and executed by the City, the payments under which are payable from Net Revenues on a parity with the 2021 Bonds and which are secured by a pledge and lien on Revenues as described in the Indenture; but excluding contracts entered into for operation and maintenance of the Wastewater System.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of:

(1) 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 prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) that portion of the principal amount of all outstanding serial Bonds maturing in such period or maturing in the next succeeding period accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts;

(3) that portion of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period or during the next succeeding period in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts; and

(4) that portion of the Contracts required to be made during such period or during the next succeeding period, in each case computed as if such payments on such Contracts were deemed to accrue daily during such period in equal amounts (except to the extent that the interest portion of such Contracts is capitalized);

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 is the greater of: (a) the actual interest rate on such Bonds or Contracts on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding); (b) if the Bonds or Contracts have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation; and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations; or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of the additional debt test and rate covenant, measuring actual debt service coverage during a test period, variable rate indebtedness will be deemed to bear interest at the actual rate per annum applicable during the test period; and provided further that, if any series or issue of such Bonds or Contracts have 25% or more of the aggregate principal amount of such series or issue due in any one year, Debt Service will be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 25 years from the date of calculation; and provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount will be treated as interest in the calculation of Debt Service; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service will be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and provided further that, Debt Service does not include interest which is paid from investment earnings on amounts on deposit in reserve funds and transferred to the Payment Fund; and provided further that if the Bonds or Contracts constitute 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, but only if the applicable Paired Obligations satisfy the requirements set forth in the Indenture.

Depository; DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the 2021 Bonds.

Event of Default. The term “Event of Default” means any of the events specified as such in the Indenture.

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period later selected and designated as the official fiscal year period of the City.

Fitch. The term “Fitch” means Fitch Ratings, Inc., or any successor thereto.

Generally Accepted Accounting Principles. The term “Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

Indenture. The term “Indenture” means the Indenture of Trust, dated as of December 1, 2021, by and between the City and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the City, each of whom is independent of the City pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the City, 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; (3) is not connected with the City as an officer or employee thereto, but who may be regularly retained to make reports thereto; and (4) is registered as a “municipal advisor,” as defined in Section 15B of the Securities Exchange Act of 1934, as amended.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may specify in a certificate to the Trustee.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement described as such in the Indenture.

Insolvency Proceeding. The term “Insolvency Proceeding” means any proceeding by or against the City under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law.

Interest Account. The term “Interest Account” means the account by that name in the Payment Fund established pursuant to the Indenture.

Interest Payment Date. The term “Interest Payment Date” means September 1, 2022 and each March 1 and September 1 thereafter.

Investment Agreement. The term “Investment Agreement” means any investment agreement (including guaranteed investment contracts, forward delivery agreements, repurchase agreements or similar obligations) with, or guaranteed by, an entity the long-term unsecured obligations or the claims paying ability of which are rated “A” or better by a nationally recognized rating agency (without regard to gradations or modifiers within such category) at the time of initial investment.

Letter of Representations. The term “Letter of Representations” means the letter of the City delivered to and accepted by the Depository on or prior to delivery of the 2021 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the City delivered to and accepted by the Depository.

Minimum Rating Requirement. The term “Minimum Rating Requirement” means the rating requirement described as such in the Indenture.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net Revenues. The term “Net Revenues” means, for any period, the Revenues for such period less the Operation and Maintenance Costs for such period. When held by the Trustee in any funds or accounts established under the Indenture, Net Revenues will include all interest or realized gain derived from the investment of amounts in any of such funds or accounts.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Office. The term “Office” means with respect to the Trustee, the corporate trust office of the Trustee at 400 South Hope Street, Suite 500, Los Angeles, California 90071, Attention: Corporate Trust, Reference: City of Escondido 2021 Water Bonds, or such other or additional offices as may be specified in writing by the Trustee to the City, except that with respect to presentation of 2021 Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with generally accepted accounting principles applicable to governmental agencies, including, but not limited to, the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Wastewater System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges (other than debt service payments) required to be paid by it to comply with the terms of the 2021 Bonds or of the Indenture or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Opinion of Bond Counsel. The term “Opinion of Bond Counsel” means a written opinion of counsel (including but not limited to counsel to the City) selected by the City. If and to the extent required by the provisions of the Indenture, each Opinion of Bond Counsel will include the statements provided for therein.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2021 Bonds, means (subject to the provisions of the Indenture) all 2021 Bonds theretofore or thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2021 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2021 Bonds with respect to which all liability of the City has been discharged in accordance with the Indenture, including 2021 Bonds (or portions thereof) described therein; and (iii) 2021 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2021 Bonds have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2021 Bond Owner. The term “Owner” or “2021 Bond Owner,” whenever used in the Indenture with respect to a 2021 Bond, means the person in whose name the ownership of such 2021 Bond is registered on the Registration Books.

Paired Obligation Provider. The term “Paired Obligation Provider” means a party to a Paired Obligation other than the City.

Paired Obligations. The term “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, which are simultaneously issued or executed and delivered: (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (ii) the interest rates which, taken together, are reasonably expected to result in a fixed interest rate obligation of the City for the term of such Bond or Contract, as certified by an Independent Financial Consultant in writing, and which comply with the provisions of the Indenture.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as securities depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to the Indenture.

Permitted Investments. The term “Permitted Investments” means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by the City (provided that the Trustee is entitled to rely upon any investment directions from the City as conclusive certification to the Trustee that the investments described therein comply with any policy guidelines promulgated by the City and are so authorized under the laws of the State of California).

The following obligations may be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow agreements: (a) Cash (insured at all times by the Federal Deposit Insurance Corporation); and (b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including: U.S. treasury obligations; All direct or fully guaranteed obligations; Farmers Home Administration; General Services Administration; Guaranteed Title XI financing; Government National Mortgage Association (GNMA); and State and Local Government Series. Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

The following obligations may be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts: (c) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank; Rural Economic Community Development Administration; Federal Farm Credit Bureau; U.S. Maritime Administration; Small Business Administration; U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration and Federal Financing Bank; (d) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC); Obligations of the Resolution Funding Corporation (REFCORP); Senior debt obligations of the Federal Home Loan Bank System; and Senior debt obligations of other Government Sponsored Agencies; (e)

U.S. dollar denominated deposit accounts, time deposits, other deposit products, trust funds, trust accounts, interest bearing deposits, interest bearing money market accounts, overnight bank deposits, federal funds and bankers' acceptances with domestic commercial banks which may include the Trustee and its affiliates which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank); (f) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's or "A-1" by S&P and which matures not more than 270 calendar days after the date of purchase; (g) Investments in a money market mutual fund rated "AAm", "AAAm" or "AAAm-G" or better by S&P, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding the fact that: (i) the Trustee or an affiliate of the Trustee receives and retains fees from funds for services provided to the fund; (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds; and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee; (h) 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: (1) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or (2) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; (i) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and S&P; (j) Investment Agreements (supported by appropriate opinions of counsel); (k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; (l) Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code § 6509.7. To be eligible for purchase, the pool must meet the requirements of California Government Code § 53601(p); and (m) Certificates of deposit (including those placed by a third party pursuant to a separate agreement between the City and the Trustee) insured by the Federal Deposit Insurance Corporation.

The value of the above investments will be determined as follows: (a) for the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued at cost; (b) as to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and (c) as to any investment not specified above: the value thereof established by prior agreement among the City and the Trustee.

Principal Account. The term "Principal Account" means the account by that name in the Payment Fund established pursuant to the Indenture.

Rating. The term "Rating" means any currently effective rating on the 2021 Bonds issued by a Rating Agency.

Rating Agencies. The term "Rating Agencies" means S&P, Moody's or Fitch, as the context dictates.

Record Date. The term "Record Date" means, with respect to any Interest Payment Date, the 15th day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Redemption Date. The term "Redemption Date" means the date fixed for a redemption prior to maturity of the 2021 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 2021 Bond (or portion thereof), the principal amount of such 2021 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 2021 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 2021 Bonds pursuant to the Indenture.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust services 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 within the Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time are such officers, respectively, or to whom any corporate trust matter is referred at the Office because of such person’s knowledge of any familiarity with the particular subject and having direct responsibility for the administration of the Indenture.

Revenue Fund. The term “Revenue Fund” means the Wastewater Enterprise Fund of the City and/or such other fund or account of the City in which Revenues are deposited.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership of or operation of the Wastewater System, including, without limiting the generality of the foregoing: (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the City from the collection, treatment and disposal of wastewater or other services or facilities provided in the conduct or operation of the business of the Wastewater System; and (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, proceeds or other moneys, including City reserves, but excluding in all cases: (x) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; (y) any proceeds of taxes or benefit assessments restricted by law to be used by the City to pay amounts due on bonds or other obligations previously or later incurred; and (z) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities.

Separate Facilities. The term “Separate Facilities” means any capital items acquired on or after the date hereof and which were not financed from the proceeds of Bonds or Contracts of the City having a parity claim on the Revenue Fund or Revenues.

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 addresses and/or such other securities depositories as the City may designate in a Written Request of the City delivered to the Trustee.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture duly authorized and entered into between the City and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized thereunder.

SWRCB. The term “SWRCB” means the State of California Water Resources Control Board.

SWRCB Agreements. The term “SWRCB Agreements” means: (i) the Water Reclamation Project agreement with the SWRCB payable in annual installments of \$987,722, without interest and maturing on April 1, 2023; (ii) the Tertiary Treatment Facility Project agreement with the SWRCB payable in annual installments of \$741,130 and maturing on April 1, 2023; (iii) the Blower Project agreement with the SWRCB payable in annual installments of \$98,817 and maturing on December 30, 2024; (iv) the Recycled Water Easterly Main and Tanks

Project agreement (Project No. C-06-8113-110) with the SWRCB payable in annual installments of \$176,085 and maturing on April 8, 2049; (v) the Brine Line Transmission Project agreement (Project No. C-06-8115-110) with the SWRCB payable in annual installments of \$216,373 and maturing on October 23, 2049; (vi) the Recycled Water Easterly Agricultural System Project agreement (Project No. C-06-8112-110) with the SWRCB; and (vii) the MFRO Facility Project agreement (Project No. C-06-8059-110) with the SWRCB.

Tax Certificate. The term “Tax Certificate” means that certificate signed by the City on the Closing Date of the 2021 Bonds relating to the requirements of the Code.

Trustee. The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor as Trustee under the Indenture as provided therein.

2015 Bonds. The term “2015 Bonds” means, collectively, the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015A and the City of Escondido Refunding Revenue Bonds (Wastewater System) Series 2015B (Taxable) issued by the City.

2021 Bonds. The term “2021 Bonds” means the City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A issued by the City and at any time Outstanding pursuant to the Indenture.

Wastewater Service. The term “Wastewater Service” means the wastewater collection, treatment and disposal service made available or provided by the Wastewater System (including recycled water storage and distribution facilities).

Wastewater System. The term “Wastewater System” means the whole and each and every part of the wastewater system (including the recycled water storage and distribution system) of the City, including all real property and buildings whether owned or operated by the City or another party, including the portion thereof existing on the date hereof, and including all additions, betterments, extensions and improvements to such Wastewater System or any part thereof hereafter acquired or constructed, but not including any Separate Facilities.

Written Consent of the City; Written Order of the City; Written Request of the City; Written Requisition of the City. The terms “Written Consent of the City,” “Written Order of the City,” “Written Request of the City” and “Written Requisition of the City” mean, respectively, a written consent, order, request or requisition signed by or on behalf of the City by an Authorized Officer of the City or by any two persons who are specifically authorized by resolution of the City to sign or execute such a document on its behalf.

Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for therein, with respect to compliance with any provision with the Indenture must include: (a) a statement that the person making or giving such certificate or opinion has read such provision and the definitions in the Indenture relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (c) 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 him or her to express an informed opinion with respect to the subject matter referred to in the instrument to which his or her signature is affixed; (d) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (e) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the City may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant or Independent Financial Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant or Independent Financial Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the City) upon a certificate or opinion of or representation by an officer of the City, unless such counsel or Independent Certified Public

Accountant or Independent Financial Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the City, or the same counsel or Independent Certified Public Accountant or Independent Financial Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants or Independent Financial Consultants may certify to different matters, respectively.

## THE 2021 BONDS

Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2021 Bonds, which will upon reasonable notice and at reasonable times be open to inspection during regular business hours by the City and the Owners; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2021 Bonds as provided in the Indenture.

The person in whose name any 2021 Bond is registered will be deemed the Owner thereof for all purposes of the Indenture, and payment of or on account of the interest on and principal and Redemption Price of by such 2021 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 2021 Bond to the extent of the sum or sums so paid.

2021 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2021 Bond becomes mutilated, the City, at the expense of the Owner of said 2021 Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new 2021 Bond of like tenor and authorized denomination in exchange and substitution for the 2021 Bonds so mutilated, but only upon surrender to the Trustee of the 2021 Bond so mutilated. Every mutilated 2021 Bond so surrendered to the Trustee will be canceled by it and upon the Written Request of the City delivered to, or upon the order of, the City. If any 2021 Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee is given, the City, at the expense of the Owner, will execute, and the Trustee will thereupon authenticate and deliver, a new 2021 Bond of like tenor and authorized denomination in lieu of and in substitution for the 2021 Bond so lost, destroyed or stolen (or if any such 2021 Bond has matured or is about to mature, instead of issuing a substitute 2021 Bond, the Trustee may pay the same without surrender thereof). The City may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2021 Bond issued under the Indenture and of the expenses which may be incurred by the City and the Trustee in the premises. Any 2021 Bond issued under the provisions of the Indenture in lieu of any 2021 Bond alleged to be lost, destroyed or stolen will constitute an original additional contractual obligation on the part of the City whether or not the 2021 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 2021 Bonds secured by the Indenture. Notwithstanding any other provision of the Indenture, in lieu of delivering a new 2021 Bond for a 2021 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 2021 Bond upon receipt of indemnity satisfactory to the Trustee.

### Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2021 Bonds, the City may provide that such 2021 Bonds be initially issued as book entry 2021 Bonds. If the City elects to deliver any 2021 Bonds in book entry form, then the City will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2021 Bonds in an authorized denomination corresponding to that total principal amount of the 2021 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2021 Bond will be registered in the 2021 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2021 Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book entry 2021 Bonds, the City and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2021 Bonds.

Without limiting the immediately preceding sentence, the City and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2021 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2021 Bond Registration Books, of any notice with respect to book entry 2021 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2021 Bonds to be redeemed in the event that the City redeems the 2021 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 2021 Bonds. The City and the Trustee may treat and consider the person in whose name each book entry 2021 Bond is registered in the 2021 Bond Registration Books as the absolute Owner of such book entry 2021 Bond for the purpose of payment of principal of, premium and interest on such 2021 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2021 Bond, for the purpose of registering transfers with respect to such 2021 Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the 2021 Bonds only to or upon the order of the respective Owner, as shown in the 2021 Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the 2021 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2021 Bond Registration Books, will receive a 2021 Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the 2021 Bonds. Upon delivery by the Depository to the City and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2021 Bonds for the Depository's book entry system, the City and the Trustee (if required by the Depository) will execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations does not in any way impose upon the City or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2021 Bonds other than the Owners, as shown on the 2021 Bond Registration Books. By executing a Letter of Representations, the Trustee has agreed to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the City and the Trustee will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry 2021 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 2021 Bonds; or (ii) the City determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2021 Bonds or the City, then the City will discontinue the book entry system with the Depository. If the City determines to replace the Depository with another qualified securities depository, the City will prepare or direct the preparation of a new single, separate, fully registered 2021 Bond for each of the maturity dates of such book entry 2021 Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Indenture. If the City fails to identify another qualified securities depository to replace the Depository, then the 2021 Bonds will no longer be restricted to being registered in such 2021 Bond Registration Books in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such 2021 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 2021 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 2021 Bond and all notices with respect to such 2021 Bond will be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of 2021 Bonds to Substitute Depository.

(i) The 2021 Bonds will be initially issued as provided in the Indenture. Registered ownership of such 2021 Bonds, or any portions thereof, may not thereafter be transferred except: (A) to any

successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) below (a “Substitute Depository”); provided that any successor of DTC or Substitute Depository must be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository is qualified under any applicable laws to provide the services proposed to be provided by it; or (C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the City that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clauses (i)(A) or (B) above, upon receipt of all Outstanding 2021 Bonds by the Trustee, together with a Written Request of the City to the Trustee designating the Substitute Depository, a single new 2021 Bond, which the City will prepare or cause to be prepared, will be issued for each maturity of 2021 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of the City. In the case of any transfer pursuant to clause (i)(C) above, upon receipt of all Outstanding 2021 Bonds by the Trustee, together with a Written Request of the City to the Trustee, new 2021 Bonds, which the City will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the City, subject to the limitations of the Indenture, provided that the Trustee is not required to deliver such new 2021 Bonds within a period of less than 60 days from the date of receipt of such Written Request from the City.

(iii) In the case of a partial redemption or an advance refunding of any 2021 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 2021 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee is not liable for such Depository’s failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2021 Bonds will be controlling.

(iv) The City and the Trustee are entitled to treat the person in whose name any 2021 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2021 Bonds. Neither the City nor the Trustee have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2021 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2021 Bonds.

#### ISSUANCE OF 2021 BONDS; APPLICATION OF PROCEEDS

Validity of 2021 Bonds. The validity of the authorization and issuance of the 2021 Bonds is not dependent on and will not be affected in any way by any proceedings taken by the City or the Trustee with respect to any other agreement. The recital contained in the 2021 Bonds that the same are issued pursuant to the Constitution and laws of the State is conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

#### REDEMPTION OF 2021 BONDS

Selection of 2021 Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2021 Bonds, the Trustee will select the 2021 Bonds for redemption as a whole or in part among maturities on any date as directed by the City, by lot within each maturity in integral multiples of \$5,000 in accordance with the Indenture. The Trustee will promptly notify the City in writing of the numbers of the 2021 Bonds or portions thereof so selected for redemption.

Partial Redemption of 2021 Bonds. Upon surrender of any 2021 Bond redeemed in part only, the City will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the City, a new 2021 Bond or 2021 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2021 Bonds surrendered and of the same interest rate and maturity.

Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the date fixed for redemption on, the 2021 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the Redemption Date designated in such notice, the 2021 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2021 Bonds so called for redemption will cease to accrue, said 2021 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2021 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 2021 Bonds to be redeemed on their Redemption Dates, pay such 2021 Bonds at the Redemption Price. All 2021 Bonds redeemed pursuant to the provisions of the Indenture will be canceled and destroyed upon surrender thereof to the Trustee.

#### REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Application of Redemption Fund. There has been established with the Trustee a special fund designated as the "Redemption Fund." All amounts in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of paying the Redemption Price of the 2021 Bonds to be redeemed on any Redemption Date pursuant to the Indenture; provided, however, that at any time prior to selection for redemption of any such 2021 Bonds, upon written direction of the City, the Trustee will apply such amounts to the purchase of 2021 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed pursuant to a Written Request of the City, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the 2021 Bonds.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments. Such investments will be directed by the City pursuant to a Written Request of the City filed with the Trustee at least two Business Days in advance of the making of such investments. In the absence of any such directions from the City, the Trustee will invest any such moneys in Permitted Investments described in clause (g) of the definition thereof; provided, however, that any such investment will be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee has received a written direction from the City specifying a specific money market fund and, if no such written direction from the City is so received, the Trustee will hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account. Ratings of Permitted Investments referred to in the Indenture will be determined at the time of purchase of such Permitted Investments and without regard to rating subcategories. The Trustee has no responsibility to monitor the ratings of Permitted Investments after the initial purchase of such Permitted Investments or to validate the ratings of Permitted Investments prior to the initial purchase.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture will be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds (other than the Rebate Fund) held by it thereunder upon the Written Request of the City. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee will incur no liability for losses arising from any investments made pursuant to the Indenture.

The City has acknowledged that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City has specifically waived receipt of such confirmations to the extent permitted by law. The City 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 City with periodic cash transaction statements which will include detail for all investment transactions effected by the Trustee under the Indenture. Upon the City'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.

For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture (other than the Rebate Fund), but will account for each separately. In making any valuations of investments under the Indenture, the Trustee may utilize and rely on generally recognized pricing information services (including brokers and dealers in securities) that may be available to the Trustee, including those available through the Trustee accounting system.

#### Rebate Fund.

(a) Establishment. The Trustee will establish a separate fund for the 2021 Bonds designated the “Rebate Fund.” Absent an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2021 Bonds will not be adversely affected, the City will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2021 Bonds will be governed by the Indenture and the Tax Certificate for the 2021 Bonds, unless and to the extent that the City delivers to the Trustee an Opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2021 Bonds will not be adversely affected if such requirements are not satisfied. The Trustee will be deemed conclusively to have complied with the provisions of the Indenture and the Tax Certificate if the Trustee follows the directions of the City, and the Trustee has no independent responsibility to or liability resulting from failure of the Trustee to enforce compliance by the City with the Tax Certificate or the provisions of the Indenture.

(i) Annual Computation. Within 55 days of the end of each Bond Year, the City will calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for such purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The City will obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the foregoing provision.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year, upon the Written Order of the City, an amount will be deposited to the Rebate Fund by the Trustee from any Revenues legally available for such purpose (as specified by the City in the aforesaid Written Order), if and to the extent required so that the balance in the Rebate Fund equals the amount of Rebatable Arbitrage so calculated in accordance with clause (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Order of the City, the Trustee will withdraw the excess from the Rebate Fund and then transfer such amount to the Interest Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by Written Order of the City, to the United States Treasury, out of amounts in the Rebate Fund: (A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the 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 2021 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 City will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to

clause (a) 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, 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 2021 Bonds and the payments described in subsection (a) above being made may be withdrawn by the City upon written request and utilized in any manner by the City.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the Rebate Fund requirements of the Indenture survive the defeasance or payment in full of the 2021 Bonds.

Application of Funds and Accounts When No 2021 Bonds are Outstanding. On the date on which all 2021 Bonds are retired under the Indenture or provision made therefor pursuant thereto and after payment of all amounts due the Trustee thereunder, all moneys then on deposit in any of the funds or accounts established with the Trustee pursuant to the Indenture will be withdrawn by the Trustee and paid to the City for use by the City at any time for any purpose permitted by law.

#### PARTICULAR COVENANTS

Punctual Payment. The City will punctually pay or cause to be paid the principal and interest to become due in respect of all of the 2021 Bonds, in strict conformity with the terms of the 2021 Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of 2021 Bonds. The City will not directly or indirectly extend or assent to the extension of the maturity of any of the 2021 Bonds or the time of payment of any claims for interest by the purchase of such 2021 Bonds or by any other arrangement, and in case the maturity of any of the 2021 Bonds or the time of payment of any such claims for interest are extended, such 2021 Bonds or claims for interest are not entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the 2021 Bonds then Outstanding and of all claims for interest thereon which have not been so extended. Nothing in the Indenture will be deemed to limit the right of the City to issue Bonds for the purpose of refunding any Outstanding 2021 Bonds, and such issuance will not be deemed to constitute an extension of maturity of 2021 Bonds.

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 Indenture. The City may at any time, or from time to time, execute Contracts or issue Bonds as permitted therein. The City may also at any time, or from time to time, incur evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of lien on Revenues on any moneys in the Revenue Fund as may from time to time be deposited therein, provided that such pledge and lien is subordinate in all respects to the pledge of and lien thereon provided in the Indenture.

Power to Issue 2021 Bonds and Make Pledge and Assignment. The City is duly authorized pursuant to law to issue the 2021 Bonds, to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The 2021 Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the City in accordance with their terms, and the City will and the Trustee may, at all times, subject to the provisions of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the 2021 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

#### Accounting Records and Financial Statements.

(a) The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries are made of

all transactions made by it relating to the proceeds of 2021 Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account will be available for inspection by the City upon reasonable prior notice during business hours and under reasonable circumstances.

(b) The City will keep appropriate accounting records in which complete and correct entries are made of all transactions relating to the Wastewater System, which records will be available for inspection by the Trustee (which has no duty to inspect such records) at reasonable hours and under reasonable conditions.

(c) The City will prepare and file with the Trustee within two hundred seventy (270) days of each Fiscal Year (commencing with the Fiscal Year ended June 30, 2021) financial statements of the City for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon. The Trustee has no duty to review, verify or analyze such financial statements, and will hold such financial statements solely as a repository for the benefit of the 2021 Bond Owners. The Trustee will not be deemed to have notice of any information contained therein, or default or Event of Default which may be disclosed therein in any manner.

Tax Covenants. Notwithstanding any other provision of the Indenture, absent an Opinion of Bond Counsel that the exclusion from gross income of the interest on the 2021 Bonds will not be adversely affected for federal income tax purposes, the City has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City will not take or omit to take any action or make any use of the proceeds of the 2021 Bonds or of any other moneys or property that would cause the 2021 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 2021 Bonds or of any other amounts or property, regardless of the source, and will not take or omit to take any action that would cause the 2021 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 2021 Bonds and will not take or omit to take any action that would cause the 2021 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 requirements of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2021 Bonds pursuant to Section 103(a) of the Code.

(e) Hedge Bonds. The City will make no use of the proceeds of the 2021 Bonds or any other amounts or property, regardless of the source, and will not take any action or refrain from taking any action that would cause the 2021 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 the interest on the 2021 Bonds for federal income tax purposes.

(f) Miscellaneous. The City will take no action, or omit to take any action, inconsistent with the expectations stated in the Tax Certificate and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

The foregoing tax covenants are not applicable to, and nothing contained in the Indenture will be deemed to prevent the City from issuing or executing and delivering additional obligations, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Waiver of Laws. The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time later in force that may affect the

covenants and agreements contained in the Indenture or in the 2021 Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the City to the extent permitted by law.

Further Assurances. The City will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2021 Bonds of the rights and benefits provided in the Indenture.

In addition, each of the City and Trustee covenant and agree to take such action (including, as applicable, the filing of continuations of Uniform Commercial Code financing statements) as is necessary from time to time to preserve the priority of the pledge of the Trust Estate under applicable law.

Budgets. On or prior to the fifteenth day of each Fiscal Year, the City will certify to the Trustee that the amounts budgeted for payment of the principal of and interest on the 2021 Bonds are fully adequate for the payment of all such payments for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of the principal of and interest on the 2021 Bonds due under the Indenture, the City will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the City in the then ensuing Fiscal Year for the payment of the principal of and interest on the 2021 Bonds due under the Indenture and will notify the Trustee of the proceedings then taken or proposed to be taken by the City.

Observance of Laws and Regulations. To the extent necessary to assure its performance under the Indenture, the City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or later imposed on the City by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or later acquired by the City, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises are maintained and preserved, and do not become abandoned, forfeited or in any manner impaired.

Compliance with Contracts. The City will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the City to pay principal of or interest on the 2021 Bonds; and the City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Wastewater System, to the extent that the City is a party thereto.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee or any 2021 Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Wastewater System or any part thereof, whether now existing or later developing, will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee (including all of its employees, officers and directors), the Trustee and every 2021 Bond Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The City will defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) or any 2021 Bond Owner upon any claim arising out of the receipt, application or disbursement of any of the payments of principal of or interest on the 2021 Bonds or involving the rights of the Trustee or any 2021 Bond Owner under the Indenture; provided that the Trustee or any 2021 Bond Owner at such party's election may appear in and defend any such suit, action or proceeding. The City will indemnify and hold harmless the Trustee and the 2021 Bond Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and will indemnify and hold harmless the 2021 Bond Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation (including pre-litigation activities) to which any of them may become a party by reason of ownership of 2021 Bonds. The City will promptly reimburse any 2021 Bond Owner in the full amount of any attorneys' fees or other expenses which such Owner may incur in litigation or otherwise in order to enforce such party's rights under the Indenture or the 2021 Bonds, provided that such litigation is concluded favorably to such party's contentions therein.

Continuing Disclosure. The City has covenanted and agreed that it will comply with and carry out all of its obligations under the Continuing Disclosure Certificate to be executed and delivered by the City in connection with the issuance of the 2021 Bonds. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate will not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with the foregoing obligations. For purposes of the foregoing, “Beneficial Owner” means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2021 Bonds (including persons holding 2021 Bonds through nominees, depositories or other intermediaries).

Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the 2021 Bonds, or which would otherwise impair the operation of the Wastewater System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the City to pay the principal of and interest on the 2021 Bonds and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing in the Indenture restricts the ability of the City to sell any portion of the Wastewater System if such portion is immediately repurchased by the City and if such arrangement cannot by its terms result in the purchaser of such portion of the Wastewater System exercising any remedy which would deprive the City of or otherwise interfere with its right to own and operate such portion of the Wastewater System.

Against Competitive Facilities. To the extent that it can so legally obligate itself, the City has covenanted that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any municipal wastewater system that is competitive with the Wastewater System.

Maintenance and Operation of the Wastewater System. The City will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created under the Indenture or on any funds in the hands of the City pledged to pay the principal of or interest on the 2021 Bonds or to the Owners prior or superior to the lien under the Indenture.

Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with facilities similar to the Wastewater System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance, the Net Proceeds thereof will be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The City will begin such reconstruction, repair or replacement promptly after 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 Wastewater System is free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds will be applied by the City in any manner permitted by law.

(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 2021 Bond Owners, which insurance affords protection in such amounts and against such risks as are usually covered in connection with municipal retail wastewater systems similar to the Wastewater System.

(c) Any insurance 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 municipal retail water systems similar to the Wastewater System and is, in the opinion of an accredited actuary, actuarially sound.

Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Wastewater System, or any part thereof or upon the Revenues when the same become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System, or any part thereof, but the City is not required to comply with any regulations or requirements so long as the validity or application thereof is contested in good faith.

Collection of Rates and Charges. The City will have in effect at all times by laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Wastewater Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

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

Enforcement of Contracts. The City will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or later entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the City to pay principal of and interest on the 2021 Bonds.

#### EVENTS OF DEFAULT AND REMEDIES OF 2021 BOND OWNERS

Events of Default. The following events are Events of Default under the Indenture:

(a) Default by the City in the due and punctual payment of the principal of any 2021 Bonds, the principal of any Bonds or the principal with respect to any Contract, when and as the same become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default by the City in the due and punctual payment of any installment of interest on any 2021 Bonds, any installment of interest on any Bond or any installment of interest with respect to any Contract, when and as the same become due and payable.

(c) Default by the City in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2021 Bonds, or required by any Bond or indenture relating thereto or by any Contract, if such default continues for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the City by the Trustee, by the Owners of not less than a majority in aggregate principal amount of 2021 Bonds Outstanding, a majority in principal amount of such Bond outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that, if in the reasonable opinion of the City the default stated in the notice can be corrected, but not within

such 30 day period, and corrective action is instituted by the City within such 30 day period and diligently pursued in good faith until the default is corrected, such default will not be an Event of Default under the Indenture.

(d) The City files a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or a court of competent jurisdiction approves a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction assumes custody or control of the City or of the whole or any substantial part of its property.

(e) Payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms.

Remedies Upon Event of Default. If any Event of Default specified in clauses (d) or (e) above occurs and is continuing, the Trustee will, and for any other Event of Default, the Trustee may, and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2021 Bonds at the time Outstanding, will, in each case, upon notice in writing to the City, declare the principal of all of the 2021 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration, the same will become and be immediately due and payable, anything in the Indenture or in the 2021 Bonds contained to the contrary notwithstanding.

Nothing contained in the Indenture permits or requires the Trustee to accelerate payments due under the Indenture if the City is not in default of its obligation thereunder.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City deposits with the Trustee a sum sufficient to pay all the principal of and installments of interest on the 2021 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective 2021 Bonds to the extent permitted by law, and the reasonable fees, disbursements and expenses of the Trustee, or deposits with the applicable trustee with respect to any Contract a sum sufficient to pay all the principal and installments of interest with respect to such Contract payment of which is overdue, with interest on such overdue principal at the rate borne by such Contract to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Contract, or deposits with the applicable trustee with respect to any Bond a sum sufficient to pay all the principal of and installment of interest on such Bond payment of which is overdue, with interest on such overdue principal at the rate borne by such Bonds to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Bonds, and any and all other Events of Default actually known to a Responsible Officer of the Trustee or the applicable trustee with respect to such Contract or Bonds (other than in the payment of principal of and interest on the 2021 Bonds, payment of principal and interest with respect to such Contract or payment of principal and interest on such Bond, as applicable, due and payable solely by reason of such declaration) have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then and in every such case the Trustee will on behalf of the Owners of all of the 2021 Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment will extend to or affect any subsequent Event of Default, or impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default. If an Event of Default occurs and is continuing, all Revenues held or thereafter received by the Trustee and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than the Rebate Fund) will be applied in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2021 Bonds, Contracts or Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of Operation and Maintenance Costs; and

(c) To the payment of the principal of and interest then due on the 2021 Bonds (upon presentation of the 2021 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, and to the payment of the principal and interest then due with respect to such Contract in accordance with the provisions thereof and the payment of the principal of and interest then due on such Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due on the 2021 Bonds, with respect to such Contract or on such Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any 2021 Bonds, principal with respect to such Contract or principal of any Bonds, as applicable, which have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate of 8% per annum, and, if the amount available is not sufficient to pay in full all the 2021 Bonds, all amounts due under such Contract or all the Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: If there exists any remainder after the foregoing payments, such remainder will be paid to the City.

Trustee to Represent 2021 Bond Owners. The Trustee has been irrevocably appointed (and the successive respective Owners of the 2021 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 2021 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 2021 Bonds or the Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2021 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 2021 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 2021 Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2021 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2021 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 2021 Bonds, subject to the provisions of the Indenture.

Nothing in the Indenture will be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any 2021 Bond Owner any plan of reorganization, arrangement, adjustment, or composition affecting the 2021 Bonds or the rights of any 2021 Bond Owner thereof, or to authorize the Trustee to vote in respect of the claim of any 2021 Bond Owner in any such proceeding without the approval of the 2021 Bond Owners so affected.

2021 Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2021 Bonds then Outstanding have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee under the Indenture, provided that such direction 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 (which determination the Trustee has no duty to make) would be unjustly prejudicial to 2021 Bond Owners not parties to such direction.

Suit by Owners. No Owner of any 2021 Bonds have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture with respect to such 2021 Bonds, unless: (a) such Owners have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than 50% in aggregate principal amount of the 2021 Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of the 2021 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 2021 Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of 2021 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 2021 Bonds, or to enforce any right under the 2021 Bonds, the Indenture, or applicable law with respect to the 2021 Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided therein and for the benefit and protection of all Owners of the Outstanding 2021 Bonds, subject to the provisions of the Indenture.

Absolute Obligation of the City. Nothing in the Indenture or in the 2021 Bonds affects or impairs the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the 2021 Bonds to the respective Owners of the 2021 Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets therein pledged therefor, or affects or impairs the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2021 Bonds.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the 2021 Bonds in the Indenture is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, will be cumulative and in addition to any other remedy given thereunder or now or later existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2021 Bonds to exercise any right or power arising upon the occurrence of any Event of Default will impair any such right or power or be construed to be a waiver of any such Event of Default or an acquiescence therein.

## THE TRUSTEE

### Duties, Immunities and Liabilities of Trustee.

(a) The Trustee will, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture, and no implied covenants or duties 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 or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The City may remove the Trustee at any time upon 30 days' prior notice, unless an Event of Default has occurred and is then continuing, and will remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2021 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time

the Trustee ceases to be eligible in accordance with the Indenture, or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property is appointed, or any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon will promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the City and by giving the 2021 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the retiring Trustee or any 2021 Bond Owner (on behalf of such 2021 Bond Owner and all other 2021 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture will signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, will become vested with all of the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the City or the request of the successor Trustee, such predecessor Trustee will execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all 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 subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the City will mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which is then rating the 2021 Bonds and to the 2021 Bond Owners at the addresses shown on the Registration Books. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee will cause such notice to be mailed at the expense of the City.

(e) Any Trustee appointed under the provisions of the Indenture in succession to the Trustee will be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Indenture the combined capital and surplus of such trust company, banking association or bank will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee ceases to be eligible in accordance with the provisions of the Indenture, the Trustee will resign immediately in the manner and with the effect specified 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 or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it is a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank is eligible under the Indenture, will be the successor to such Trustee, without the execution or filing of any paper or any further act, anything therein to the contrary notwithstanding.

### Liability of Trustee.

(a) The recitals of facts in the Indenture and in the 2021 Bonds will be taken as statements of the City, 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 or the 2021 Bonds, 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 2021 Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the 2021 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 2021 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 2021 Bond Owners, whether or not such committee represents the Owners of a majority in principal amount of the 2021 Bonds then Outstanding.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for in the Indenture) in aggregate principal amount of the 2021 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee will not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee will not be deemed to have knowledge of any default or Event of Default under the Indenture or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default thereunder unless and until a Responsible Officer of the Trustee has actual knowledge of such event or the Trustee has been notified in writing, in accordance with the Indenture, of such event by the City or the Owners of not less than 50% of the 2021 Bonds then Outstanding. Except as otherwise expressly provided in the Indenture, the Trustee is not bound to ascertain or inquire as to the performance or observance by the City of any of the terms, conditions, covenants or agreements therein or any of the documents executed in connection with the 2021 Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee is not responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties 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 vested in it by the Indenture, including at the request, order or direction of any of the Owners pursuant to the Indenture, unless such Owners have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not expressly so provided in the Indenture, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture.

(i) The Trustee has no responsibility or liability with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2021 Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and will not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Wastewater System, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee has the right to accept and act upon instructions, including funds transfer instructions (“Instructions”) given pursuant to the Indenture and delivered using Electronic Means (“Electronic Means” means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services under the Indenture); provided, however, that the City must provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions (“Authorized Officers”) and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by the City whenever a person is to be added or deleted from the listing. If the City elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee’s understanding of such Instructions will be deemed controlling. The City has understood and agreed that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The City will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the City and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City. The Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. The City has agreed: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

(n) The Trustee will not be 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 City, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2021 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2021 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 City, and such Certificate, Request or Requisition will be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Preservation and Inspection of Documents. All documents that are received by the Trustee under the provisions of the Indenture will be retained in its possession during the term thereof in accordance with applicable document retention policies and will be subject at all reasonable times to the inspection of the City and any 2021 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The City will pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The City will indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or willful misconduct on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of the trust of the Indenture or any other document or transaction executed in connection with 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 under the Indenture. The rights of the Trustee and the obligations of the City under the Indenture will survive removal or resignation of the Trustee thereunder or the discharge of the 2021 Bonds and the Indenture.

When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law. Upon an Event of Default, and only upon an Event of Default, the Trustee will have a first lien with right of payment prior to payment on account of principal of and premium, if any, and interest on any 2021 Bond, upon the trust estate for the foregoing fees, charges and expenses incurred by it.

## MODIFICATION OR AMENDMENT OF THE INDENTURE

### Amendments Permitted.

(a) The Indenture and the rights and obligations of the City and of the Owners of the 2021 Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the City and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all 2021 Bonds then Outstanding, exclusive of 2021 Bonds disqualified as

provided in the Indenture, has been filed with the Trustee. No such modification or amendment may: (1) extend the fixed maturity of any 2021 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 2021 Bond so affected; or (2) reduce the aforesaid percentage of 2021 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2021 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted therein, without the consent of the Owners of all of the 2021 Bonds then Outstanding. It is not necessary for the consent of the 2021 Bond Owners to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent approves the substance thereof. Promptly after the execution by the City and the Trustee of any Supplemental Indenture pursuant to the 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 2021 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the City, the Trustee and the Owners of the 2021 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into without the consent of any 2021 Bond Owners, if the Trustee receives an Opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture does not materially adversely affect the interests of the Owners of the Outstanding 2021 Bonds, including, without limitation, for any one or more of the following purposes: (1) to add to the covenants and agreements of the City contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2021 Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the City in the Indenture; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable; and (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 in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute.

(c) The Trustee may in its discretion, but is not obligated to, enter into any such Supplemental Indenture authorized by the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture under the Indenture, there will be delivered to the Trustee an Opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2021 Bonds from federal income taxation and from state income taxation.

(e) The City will send copies of any amendments to the Indenture to the Rating Agencies.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the City, the Trustee and all Owners of 2021 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 2021 Bonds; Preparation of New 2021 Bonds. 2021 Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the City so determines will, bear a notation by endorsement or otherwise in form approved by the City as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2021 Bonds Outstanding at the time of such execution and presentation of his or her 2021 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

2021 Bonds. If the Supplemental Indenture so provides, new 2021 Bonds so modified as to conform, in the opinion of the City, to any modification or amendment contained in such Supplemental Indenture, will be prepared and executed by the City and authenticated by the Trustee, and upon demand on the Owners of any 2021 Bonds then Outstanding will be exchanged at the Office of the Trustee, without cost to any 2021 Bond Owner, for 2021 Bonds then Outstanding, upon surrender for cancellation of such 2021 Bonds, in equal aggregate principal amount of the same maturity.

Amendment of Particular 2021 Bonds. The provisions of the Indenture do not prevent any 2021 Bond Owner from accepting any amendment as to the particular 2021 Bonds held by such Owner.

## DEFEASANCE

Discharge of Indenture. The 2021 Bonds may be paid by the City in any of the following ways, provided that the City also pays or causes to be paid any other sums payable under the Indenture by the City: (a) by paying or causing to be paid the principal of and interest and redemption premiums (if any) on the 2021 Bonds, as and when the same become due and payable; (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem all 2021 Bonds then Outstanding; or (c) by delivering to the Trustee, for cancellation by it, all of the 2021 Bonds then Outstanding.

If the City also pays or causes to be paid all other sums payable under the Indenture by the City, then and in that case, at the election of the City (as evidenced by a Certificate of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding the fact that any 2021 Bonds have not been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied, except for the City's obligations described under the caption "THE TRUSTEE—Compensation and Indemnification." In such event, upon the Written Request of the City, the Trustee will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of 2021 Bonds not theretofore surrendered for such payment or redemption to the City.

Discharge of Liability on 2021 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 2021 Bonds (whether upon or prior to the maturity or the Redemption Date of such 2021 Bonds), provided that, if such Outstanding 2021 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 City in respect of such 2021 Bonds will cease, terminate and be completely discharged, and the Owners thereof will thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any 2021 Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such 2021 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 2021 Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2021 Bonds and all unpaid interest thereon to maturity, except that, in the case of 2021 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 2021 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 City and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the Redemption Date (with premium, if any), as the case may be, on the 2021 Bonds to be paid or redeemed, as such principal, interest and premium, if any, become due, provided that in the case of 2021 Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that: (i) the Trustee has been irrevocably instructed (by the terms of the Indenture or by Written Request of the City) to apply such money to the payment of such principal, interest and premium, if any, with respect to such 2021 Bonds; and (ii) the City has delivered to the Trustee an Opinion of Bond Counsel addressed to the City and the Trustee to the effect that such 2021 Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountant's or Independent Financial Consultant's opinion referred to above).

Payment of 2021 Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2021 Bonds and remaining unclaimed for 2 years after the principal of all of the 2021 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 2 years after the date of deposit of such moneys if deposited after said date when all of the 2021 Bonds became due and payable, will be repaid to the City (without liability for interest) free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the City and the Trustee indemnifying the Trustee with respect to claims of Owners of 2021 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the City as aforesaid, the Trustee will at the written direction of the City (at the cost of the City) first mail to the Owners of 2021 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 2021 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the City of the moneys held for the payment thereof.

#### MISCELLANEOUS

Liability of City Limited to Revenues. Notwithstanding anything in the Indenture or the 2021 Bonds, but subject to the priority of payment with respect to Operation and Maintenance Costs, the City is not required to advance any moneys derived from any source other than the Revenues, the Revenue Fund and other moneys pledged under the Indenture for any of the purposes mentioned in the Indenture, whether for the payment of the principal of or interest on the 2021 Bonds or for any other purpose of the Indenture. Nevertheless, the City may, but is not required to, advance for any of the purposes of the Indenture any funds of the City which may be made available to it for such purposes.

The obligation of the City to pay interest and principal on the 2021 Bonds is a special obligation of the City payable solely from the Net Revenues, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof (other than the City) in contravention of any constitutional or statutory debt limitation or restriction.

Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the City or the Trustee is named or referred to, such reference will be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the City or the Trustee will bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Limitation of Rights to Parties and 2021 Bond Owners. Nothing in the Indenture or in the 2021 Bonds expressed or implied is intended or will be construed to give to any person other than the City, the Trustee and the Owners of the 2021 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 City, the Trustee and the Owners of the 2021 Bonds.

Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice will not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice is required to be given by mail, such requirement will be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of 2021 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the City of any 2021 Bonds, the Trustee will destroy such 2021 Bonds as may be allowed by law, and, upon the City's request, deliver a certificate of such destruction to the City.

Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2021 Bonds is for any reason held to be invalid, illegal or unenforceable in any respect, then such provision or provisions will be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability will not affect any other provision of the Indenture, and the Indenture will be construed as if such invalid or illegal or unenforceable provision had never been contained therein. The City has declared that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase thereof and authorized the issuance of the 2021 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 2021 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2021 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and will be signed or executed by such 2021 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 2021 Bonds transferable by delivery, will be sufficient for any purpose of the Indenture and will be conclusive in favor of the Trustee and the City if made in the manner provided in the Indenture. The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer. The Ownership of 2021 Bonds will be proved by the Registration Books. Any request, consent, or other instrument or writing of the Owner of any 2021 Bond will bind every future Owner of the same 2021 Bond and the Owner of every 2021 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the City in accordance therewith or reliance thereon.

Disqualified 2021 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2021 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2021 Bonds which are actually known by a Responsible Officer of the Trustee to be owned or held by or for the account of the City, or by any other obligor on the 2021 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2021 Bonds, will be disregarded and deemed not to be Outstanding for the purpose of any such determination, unless all 2021 Bonds are so owned or held, in which case such 2021 Bonds will not be disregarded and will be deemed to be Outstanding. 2021 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 2021 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the City or any other obligor on the 2021 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel will be full protection to the Trustee. Upon request, the City will certify to the Trustee those 2021 Bonds that are disqualified pursuant to the Indenture and the Trustee may conclusively rely on such certificate.

Money Held for Particular 2021 Bonds. The money held by the Trustee for the payment of the interest, principal or premium due on any date with respect to particular 2021 Bonds (or portions of 2021 Bonds in the case of registered 2021 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 2021 Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts will at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the 2021 Bonds and the rights of every Owner thereof.

Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the City will be individually or personally liable for the payment of the principal of or premium or interest on the 2021 Bonds or be 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 City are liable for any defect or inaccuracy in the CUSIP number that appears on any 2021 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 2021 Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the 2021 Bond Owners and that neither the City 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.

Paired Obligation Provider Guidelines. For purposes of the Indenture, Paired Obligations must comply with the following conditions: (a) A Paired Obligation Provider must initially have a long-term rating of A- or better by S&P and A3 or better by Moody's. (b) So long as the long-term rating of the Paired Obligation Provider is not reduced below BBB by S&P or Baa2 by Moody's, the interest rate of such Paired Obligation will be deemed to be equal to the irrevocable fixed interest rate attributable thereto for purposes of the Indenture.

In the event that a Paired Obligation Provider does not maintain the Minimum Rating Requirement and the City does not replace such Paired Obligation Provider with another Paired Obligation Provider which maintains the Initial Rating Requirement within 10 Business Days of notice that the Paired Obligation Provider has not maintained the Minimum Rating Requirement, interest with respect to such Paired Obligations will be computed for purposes of the Indenture without regard to payments to be received from the Paired Obligation Provider. The Trustee has no obligation to monitor the ratings of any Paired Obligation Providers.

**APPENDIX C**

**FORM OF OPINION OF BOND COUNSEL**

*Upon issuance of the 2021 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

December 8, 2021

City of Escondido  
Escondido, California

*Re: City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A*

Members of the City Council:

We have acted as Bond Counsel to the City of Escondido (the “City”) in connection with the issuance of \$21,550,000 aggregate principal amount of City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A (the “Bonds”). The Bonds have been issued by the City pursuant to the terms of the Indenture of Trust, dated as of December 1, 2021 (the “Indenture”), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

The Bonds are limited obligations of the City payable solely from Net Revenues of the Wastewater System (as such terms are defined in 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 City show lawful authority for the issuance and sale by the City 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 City, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, the Bonds and the Indenture are valid and binding obligations of the City enforceable against the City in accordance with their respective terms.

2. The obligation of the City to make the payments of principal and interest on the Bonds from Net Revenues is an enforceable obligation of the City and does not constitute an indebtedness of the City in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest 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 are subject to the condition that the City 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 has 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 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 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 City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2021 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2021 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2021 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 2021 Bonds. The 2021 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 2021 Bond will be issued for each annual maturity of the 2021 Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

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

Purchases of 2021 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2021 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2021 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 2021 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in 2021 Bonds, except in the event that use of the book-entry system for the 2021 Bonds is discontinued.

To facilitate subsequent transfers, all 2021 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 2021 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 2021 Bonds; DTC's records reflect only the identity of the Direct Participants to whose

accounts such 2021 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 2021 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2021 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2021 Bonds documents. For example, Beneficial Owners of 2021 Bonds may wish to ascertain that the nominee holding the 2021 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 2021 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 2021 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2021 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2021 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A 2021 Bond Owner shall give notice to elect to have its 2021 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such 2021 Bond by causing the Direct Participant to transfer the Participant's interest in the 2021 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of 2021 Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2021 Bond are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered 2021 Bond to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the 2021 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, 2021 Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2021 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 2021 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

*Upon issuance of the 2021 Bonds, the City proposes to enter into a Continuing Disclosure Certificate in substantially the following form:*

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Escondido (the “City”) in connection with the issuance of the \$21,550,000 City of Escondido Wastewater Revenue Refunding Bonds, Series 2021A (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2021 (the “Indenture”), by and between The Bank of New York Mellon Trust Company, N.A., as trustee, and the City. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report. The term “Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term “Beneficial Owner” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term “EMMA” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

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 9, 2021 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, 2022 with a report for Fiscal Year 2021) 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. An update of the information substantially in the form of Tables 1, 2, 3 and 4 under the caption "THE WASTEWATER SYSTEM" in the Official Statement.
3. An update of the information substantially in the form of Table 12 under the caption "WASTEWATER SYSTEM FINANCIAL INFORMATION" in the Official Statement.
4. A description of additional Contracts or Bonds (as such terms are defined in the Indenture) executed or issued by the City during the most recently completed Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;

4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes;
9. bankruptcy, insolvency, receivership or similar proceedings of the City; 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; and
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(a).

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: December 8, 2021

CITY OF ESCONDIDO

By: \_\_\_\_\_  
Its: City Manager