

In the opinion of Best Best & Krieger LLP, Riverside, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the federal alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. Interest on the Bonds is exempt from State of California personal income taxes. See the caption “TAX MATTERS.”

\$11,955,000
ENCINITAS PUBLIC FINANCING AUTHORITY
2017 LEASE REVENUE REFUNDING BONDS
SERIES A
(PARK PROJECT)

Dated: Date of Delivery

Due: April 1, as shown on inside cover

The 2017 Lease Revenue Refunding Bonds, Series A (Park Project) (the “Bonds”) of the Encinitas Public Financing Authority (the “Authority”) will be issued as fully registered bonds in book-entry form only, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of \$5,000 or in any integral multiple of \$5,000. Interest payable on the Bonds will be payable on October 1 and April 1 of each year, commencing October 1, 2017, and principal payable on the Bonds will be paid by MUFG Union Bank, N.A., Los Angeles, California, as trustee for the Bonds (the “Trustee”), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

The Bonds are being issued by the Authority for the purpose of refunding certain bonds issued to acquire an approximately 44 acre parcel of property for development into a recreational park (the “Project”), and to pay costs of issuance.

The Bonds are limited obligations of the Authority payable primarily from and secured by certain revenues (the “Revenues”) consisting of certain Lease Payments with respect to the Leased Premises (as described herein) by the City of Encinitas (the “City”) pursuant to a Second Amended and Restated Lease, dated as of March 1, 2017 (the “Lease Agreement”) between the City and the Authority. The Lease Payments are structured to produce Revenues sufficient to pay principal of and interest on the Bonds when due. The City has covenanted in the Lease Agreement to make all Lease Payments provided for therein, to include all such payments in its annual budgets, and to make the necessary annual appropriations for such Lease Payments. The City’s obligation to make Lease Payments is subject to abatement in the event of damage to, destruction or condemnation of, or title defects relating to, the Leased Premises described herein. See “SECURITY FOR THE BONDS” and “RISK FACTORS” herein.

The City has the right to incur other obligations payable from its general revenues without the consent of the Owners of the Bonds. The Revenues are to be received by the Authority and deposited pursuant to an Indenture of Trust, dated as of March 1, 2017 (the “Indenture”) between the City and the Trustee.

The Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS - Redemption” herein.

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors must read the entire Official Statement, including the section entitled “RISK FACTORS,” for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES AND OTHER FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT A DEBT, OBLIGATION OR LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY), NOR DO THEY CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF ANY OF THE FOREGOING (INCLUDING THE AUTHORITY AND THE CITY). THE AUTHORITY DOES NOT HAVE ANY TAXING POWER. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY’S OBLIGATION TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE FROM THE CITY’S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE CITY TO MAKE LEASE PAYMENTS. THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION, OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Bonds are offered, when, as and if issued and received by the Underwriter, subject to the approval of legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney and Best Best & Krieger LLP, Disclosure Counsel. It is expected that the Bonds, in book-entry form, will be available through the facilities of DTC in New York, New York for delivery on or about March 2, 2017.

\$11,955,000
ENCINITAS PUBLIC FINANCING AUTHORITY
2017 LEASE REVENUE REFUNDING BONDS
SERIES A
(PARK PROJECT)

MATURITY SCHEDULE

\$9,830,000
Serial Bonds
(Base CUSIP®: 292521)

<u>Maturity Date</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®</u>
2018	\$ 580,000	5.000%	0.950%	104.342	FW6
2019	645,000	5.000%	1.120%	107.956	FX4
2020	680,000	5.000%	1.300%	111.136	FY2
2021	715,000	5.000%	1.470%	113.929	FZ9
2022	750,000	5.000%	1.690%	116.048	GA3
2023	785,000	5.000%	1.840%	118.098	GB1
2024	825,000	5.000%	2.040%	119.421	GC9
2025	870,000	5.000%	2.220%	120.458	GD7
2026	910,000	5.000%	2.380%	121.280	GE5
2027	955,000	5.000%	2.500%	122.152	GF2
2028	1,005,000	4.000%	2.720%	111.217 ^C	GG0
2031	1,110,000	3.000%	3.080%	99.090	GJ4

\$2,125,000 3.000% Term Bond Maturing April 1, 2030, Yield: 3.000%, Price: 100.000, CUSIP®: GH8

^C Priced to first optional redemption date of April 1, 2027.

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ENCINITAS PUBLIC FINANCING AUTHORITY

AUTHORITY BOARD OF DIRECTORS

Catherine S. Blakespear, Chairperson
Tony Kranz, Vice Chairperson
Mark Muir, Member
Tasha Boerner Horvath, Member
Joe Mosca, Member

ENCINITAS CITY COUNCIL

Catherine S. Blakespear, Mayor
Tony Kranz, Deputy Mayor
Mark Muir, Council Member
Tasha Boerner Horvath, Council Member
Joe Mosca, Council Member

AUTHORITY/CITY STAFF

Karen P. Brust, Executive Director/City Manager
Tim Nash, Treasurer/Finance Director
Kathy Hollywood, Secretary/City Clerk
Glenn Sabine, Authority Counsel/City Attorney

SPECIAL SERVICES

Bond Counsel & Disclosure Counsel

Best Best & Krieger LLP
Riverside, California

Municipal Advisor

Fieldman, Rolapp & Associates
Irvine, California

Trustee

MUFG Union Bank, N.A.
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

No dealer, broker, salesperson or other person has been authorized by the City, the Authority or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Bonds shall under any circumstances create any implication that there has been no change in the affairs of the City or the Authority or other matters described in this Official Statement since the date hereof.

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

This Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may an offer to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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

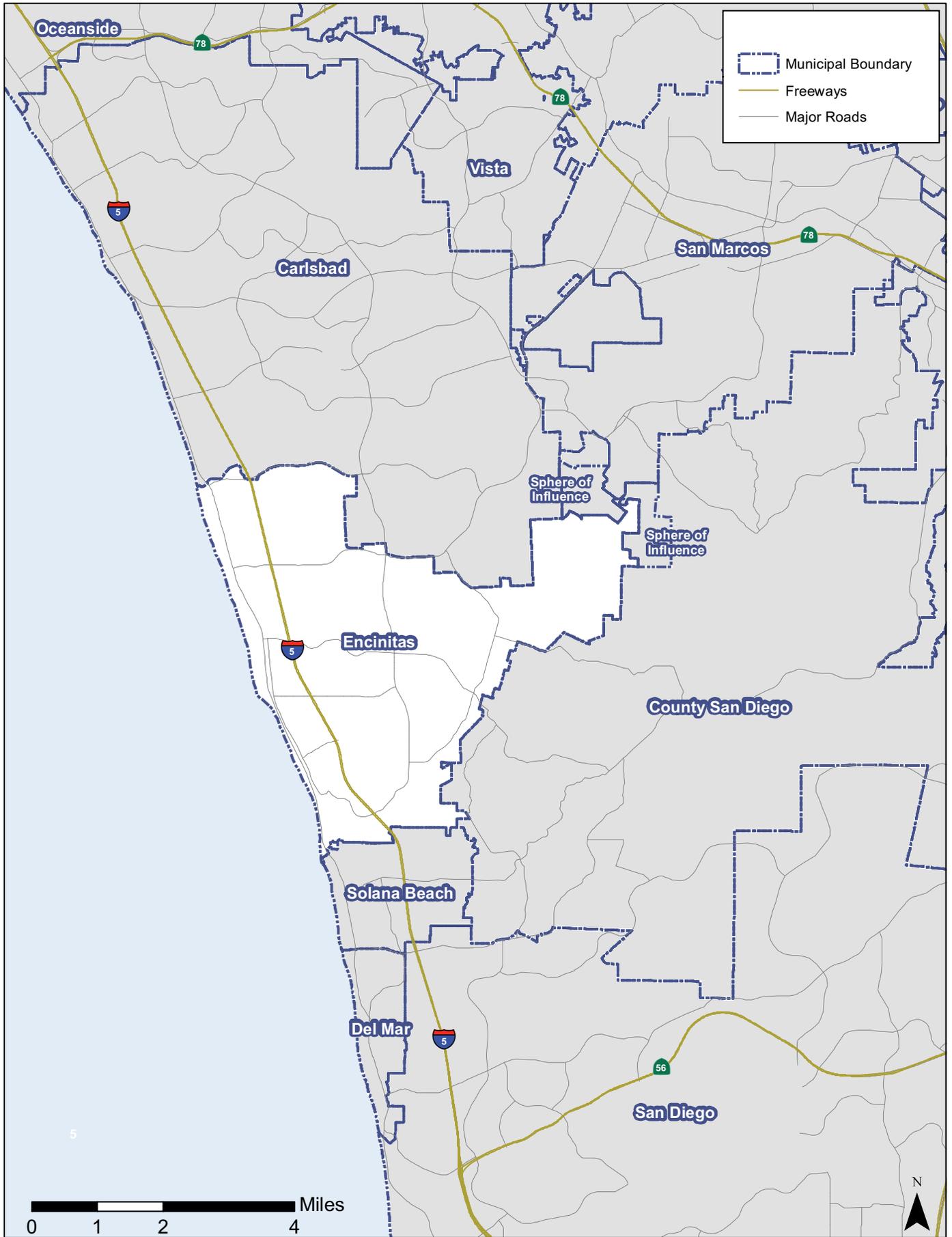
IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER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

The City maintains a website, with certain information relating to the Authority contained therein. However, the information presented on such website is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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City of Encinitas Location Map



OFFICIAL STATEMENT
\$11,955,000
ENCINITAS PUBLIC FINANCING AUTHORITY
2017 LEASE REVENUE REFUNDING BONDS
SERIES A
(PARK PROJECT)

INTRODUCTION

General

This Official Statement, including the cover page and appendices, is provided to furnish information in connection with the sale by the Encinitas Public Financing Authority (the “Authority”) of 2017 Lease Revenue Refunding Bonds, Series A (Park Project) (the “Bonds”). The Bonds are being issued pursuant to the Constitution and laws of the State of California (the “State”), including Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “JPA Law”). The Bonds are issued pursuant to an Indenture of Trust, dated as of March 1, 2017 (the “Indenture”), between the Authority and MUFG Union Bank, N.A. (the “Trustee”).

Proceeds of the Bonds will be used to refund the Project as described herein under “THE FINANCING PLAN,” and to pay costs of issuance of the Bonds. See “THE FINANCING PLAN,” “THE LEASED PREMISES” and “SOURCES AND USES OF BOND PROCEEDS” herein.

The Bonds are limited obligations of the Authority payable primarily from and secured by certain revenues (the “Revenues”) consisting of certain Lease Payments to be paid by the City pursuant to a Second Amended and Restated Lease Agreement (the “Lease Agreement”), dated as of March 1, 2017, between the City and the Authority, for certain real property and the improvements thereon (the “Leased Premises”). See “THE LEASED PREMISES” herein. The City is also required to pay any taxes, assessment charges, utility charges, maintenance and repair costs of the Leased Premises. The Lease Payments are structured to produce Revenues sufficient to pay principal of and interest on the Bonds when due. The City has covenanted in the Lease Agreement to make all Lease Payments provided for therein, to include all such payments in its annual budgets, and to make the necessary annual appropriations for such rental payments. The City’s obligations to make Lease Payments is subject to abatement in the event of damage to, destruction or condemnation of, or title defects relating to, the Leased Premises, as described herein. (See “SECURITY FOR THE BONDS” herein). The Revenues are to be received by the Authority and deposited pursuant to the Indenture.

Terms used in this Official Statement and not otherwise defined shall have the meaning given to them in APPENDIX C attached hereto.

The Authority and the City

The City is located in the northern coastal area of San Diego County (the “County”) overlooking the Pacific Ocean. The City encompasses approximately 21.4 square miles and is located 30 miles north of the City of San Diego. The California Department of Finance has estimated that the City has a population of approximately 61,928, as of January 1, 2016. For other selected information concerning the City, see “THE CITY” herein and APPENDIX A – “CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION” and APPENDIX B – “CITY’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2015/16” attached hereto.

The Authority was established pursuant to a Joint Exercise of Powers Agreement dated November 6, 1991, between the City, the Encinitas Fire Protection District, the Encinitas Sanitation District, the Cardiff Sanitation District (all of which have since been absorbed into the City) and the San Dieguito Water District (the “Members”). The Authority was created for the purpose of providing financing for public capital improvements

for the Members, including by issuing its obligations and making loans to the Members. See “THE CITY” herein.

Security for the Bonds

The Bonds are payable solely from, and are secured by, the Revenues (as defined under “SECURITY FOR THE BONDS” herein), which primarily consist of the Lease Payments. The Lease Payments are payable for the use of the Leased Premises, together with the capital improvements located thereon, leased to the City pursuant to the Lease Agreement, from any legally available funds of the City. The City has covenanted in the Lease Agreement to include the Lease Payments in its annual budgets. The City has further covenanted to make the necessary annual appropriations for all such Lease Payments, and said covenants have been deemed to be duties imposed by law. Any legislative enactment or State constitutional amendment having the effect of reducing the property tax rate would necessarily reduce the amount of general revenues available to the City to pay the Lease Payments. Likewise, broadened property tax exemptions could have a similar effect. See “RISK FACTORS” and “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein for discussion of certain other matters which may affect the collection of Revenues. The Authority does not have any power to levy and collect taxes.

The City has the right to incur other obligations payable from its general revenues without the consent of the Owners of the Bonds. In addition, the Indenture allows the Authority to issue certain additional obligations secured by the Revenues, and the Lease Agreement allows the City to incur other obligations secured by excess value of the Leased Premises. See “SECURITY FOR THE BONDS” herein.

THE BONDS ARE NOT A DEBT OF THE CITY, THE STATE OR ANY OF THEIR POLITICAL SUBDIVISIONS (OTHER THAN THE AUTHORITY). THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY AND ARE NOT OBLIGATIONS OF THE CITY. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY OTHER POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Abatement

Except to the extent of amounts on deposit in the Bond Fund, or otherwise available from an insurance or eminent domain award, the Lease Payments due under the Lease Agreement and, correspondingly, the amount available to pay the principal of and interest on the Bonds, will be subject to abatement during any period in which, by reason of damage or destruction or eminent domain, there is substantial interference with the use and possession by the City of the Leased Premises. See “RISK FACTORS - Abatement and Eminent Domain” herein. Amounts on deposit in the Bond Fund constitute a special fund for payment of Lease Payments, and shall be available for such Lease Payments in the event there is substantial interference with the use and possession of the Leased Premises.

Redemption

The Bonds are subject to optional redemption, mandatory sinking fund redemption, and special mandatory redemption as described herein.

Continuing Disclosure

The City has covenanted for the benefit of owners of the Bonds, on behalf of itself and the Authority, to provide certain financial information and operating data relating to the City and the Authority by not later than March 1 of each year, commencing with the report for the 2016/17 Fiscal Year (the “Annual Report”) and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will be filed by the City with the Municipal Securities Rulemaking Board (the “MSRB”) These

covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is summarized in APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” The City and its related entities are currently in compliance with all continuing disclosure obligations, however, prior instances of non-compliance are described herein under “CONTINUING DISCLOSURE.”

Forward-Looking Statements

This Official Statement (including the appendices hereto) contains certain forward-looking statements (collectively, the “Forward-Looking Statements”). All statements other than statements of historical facts included in this Official Statement, are Forward-Looking Statements. Although the Authority and the City believe that the expectations reflected in such Forward-Looking Statements are reasonable, no one can be given assurance that such statements will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the Authority or the City (collectively, the “Cautionary Statements”) are disclosed in this Official Statement. All Forward-Looking Statements attributable to the Authority or the City are expressly qualified in their entirety by the Cautionary Statements.

Summary of Terms

Brief descriptions of the Bonds, the Indenture, the Lease Agreement, the Authority, the City and the Leased Premises are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Indenture, the JPA Law and the Constitution and the laws of the State, as well as the proceedings of the City with respect to the Leased Premises and the Bonds, are qualified in their entirety by reference to such documents. References herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture.

Copies of the documents described herein will be available at the office of the City Finance Director, 505 South Vulcan Avenue, Encinitas, California 92024.

THE AUTHORITY

The Encinitas Public Financing Authority was established pursuant to a Joint Exercise of Powers Agreement dated November 6, 1991, by and among the City, the Cardiff Sanitation District, the Encinitas Fire Protection District, the Encinitas Sanitary District and the San Dieguito Water District in accordance with the provisions of the JPA Law. The Authority was created for the purpose of providing financing for public capital improvements for the City and the Members through the acquisition by the Authority of such public capital improvements and/or the purchase by the Authority of local obligations within the meaning of the JPA Law. Under the JPA Law, the Authority has the power to issue bonds to pay the costs of any public capital improvement. The Cardiff Sanitation District, the Encinitas Fire Protection District and the Encinitas Sanitation District have since been absorbed by the City and are treated as separate accounting divisions. The current members of the Authority are the City and the San Dieguito Water District.

THE CITY

The City was incorporated in October 1986. Topography of the surrounding area varies from broad coastal plains to fertile inland valleys backed up by mountain ranges to the east. The climate is equable in the coastal and valley regions. The community has long, dry summers and mild temperatures, with mean temperatures of 70 degrees and an average annual rainfall of 10.36 inches.

The City is the ninth largest in population in the County. Most of the land in the City is zoned residential. The City is a general law city and operates under a council-manager form of government. **The City maintains a website at www.cityofencinitas.org. However, the information presented there is not part of**

this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Bonds.

For other selected information concerning the City, see “THE CITY” herein and APPENDIX A – “CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION” and APPENDIX B – “CITY’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2015/16” attached hereto.

THE FINANCING PLAN

Refunding 2010 Lease Revenue Bonds

The Authority is selling the Bonds, in part, to provide moneys (together with other available funds of the Authority) necessary to currently refund and defease in whole its \$15,265,000 outstanding 2010 Lease Revenue Refunding Bonds, Series A (Park Project) (the “Prior Bonds”). A portion of the proceeds of the Bonds, along with certain remaining funds from the Prior Bonds, will be transferred to MUFG Union Bank, N.A., the trustee for the Prior Bonds (the “Prior Trustee”). Proceeds deposited with the Prior Trustee will be used by the Prior Trustee to pay the redemption price of the Prior Bonds, plus accrued interest, on April 1, 2017. See “ESTIMATED SOURCES AND USES OF FUNDS” herein. Upon deposit of such proceeds and other moneys with the Prior Trustee, the Prior Bonds will no longer be deemed outstanding.

The moneys and securities held by the Prior Trustee are pledged to the payment of the Prior Bonds, and are not available to pay principal of or interest on the Bonds.

The Park Project

The proceeds of the Prior Bonds were used to refund the Authority’s 2001 Lease Revenue Bonds, Series A (Acquisition Project) (the “2001 Bonds”). The proceeds of the 2001 Bonds were used to acquire an approximately 44 acre parcel of property for development into a recreational park. Improvements to the park consist of athletic facilities, skate park, dog park and related infrastructure.

SOURCES AND USES OF FUNDS

Sources and Uses of Funds

The table below sets forth the estimated sources and uses of funds with respect to the Bonds.

<u>Source of Funds</u>	<u>Total</u>
Principal Amount of Bonds	\$11,955,000.00
Net Original Issue Premium	1,360,283.55
Plus: 2010 Reserve Fund and Bond Fund	<u>2,503,507.19</u>
Total	\$15,818,790.74
<u>Uses of Funds</u>	
Escrow for Prior Bonds	\$15,578,894.44
Underwriter’s Discount	73,957.22
Costs of Issuance Fund ⁽¹⁾	<u>165,939.08</u>
Total	\$15,818,790.74

⁽¹⁾ Costs of Issuance include printing costs, fees of rating agency, municipal advisor, bond counsel and disclosure counsel, trustee’s fees and expenses and other costs relating to the issuance of the Bonds.

Debt Service Schedule

The following table presents the debt service schedule for the Bonds based on the maturity date and interest rate set forth on the cover of this Official Statement, assuming no redemptions other than mandatory sinking fund redemptions are made.

ENCINITAS PUBLIC FINANCING AUTHORITY DEBT SERVICE SCHEDULE

Bond Year Ending (April 1)	<u>Principal</u>	<u>Interest</u>	<u>Total Annual Debt Service</u>
2018	\$ 580,000	\$565,130.56	\$1,145,130.56
2019	645,000	494,000.00	1,139,000.00
2020	680,000	461,750.00	1,141,750.00
2021	715,000	427,750.00	1,142,750.00
2022	750,000	392,000.00	1,142,000.00
2023	785,000	354,500.00	1,139,500.00
2024	825,000	315,250.00	1,140,250.00
2025	870,000	274,000.00	1,144,000.00
2026	910,000	230,500.00	1,140,500.00
2027	955,000	185,000.00	1,140,000.00
2028	1,005,000	137,250.00	1,142,250.00
2029	1,045,000	97,050.00	1,142,050.00
2030	1,080,000	65,700.00	1,145,700.00
2031	1,110,000	33,300.00	1,143,300.00

THE LEASED PREMISES

The Leased Premises

The Leased Premises under the Lease Agreement consist of an approximately 44 acre recreational park. Park improvements generally consist of athletic facilities, skate park, dog park and related infrastructure. Construction on the park improvements was completed in December 2014. The City expended approximately \$42,750,000 on the acquisition and construction of the park and park improvements. The insured value of the Property has been determined to be \$16,078,800.

Substitution of Leased Premises

Pursuant to the Lease Agreement, the City has the option at any time to substitute other land, facilities or improvements (the "Substitute Leased Premises") for the Leased Premises or any portion thereof (the "Former Leased Premises") or to release a portion of the Leased Premises (the "Released Leased Premises") from the lien of the Lease Agreement, provided that the City shall satisfy all of the following requirements:

(a) The City shall provide written notification of such substitution or release to the Trustee and Rating Agencies;

(b) The City shall take all actions and shall execute all documents required to subject the Substitute Leased Premises to the terms and provisions of the Lease Agreement, including the filing with the Authority and the Trustee of an amended Exhibit A which adds thereto a description of the Substitute Leased Premises and deletes therefrom the description of the Former Leased Premises or the Released Premises, as applicable;

(c) (i) In the case of a substitution, the City shall determine and certify to the Authority and the Trustee that the fair rental value of the Substitute Leased Premises is at least equal to the remaining Lease Payments after such substitution and that the Substitute Leased Premises are essential to the governmental functions of the City;

(ii) In the case of a release, the City shall determine and certify to the Authority and the Trustee that the fair rental value of the remaining Leased Premises after removal of the Released Premises is at least equal to the then remaining Lease Payments;

(d) In the case of a substitution, the City shall certify in writing to the Authority and the Trustee that the Substitute Leased Premises serve the public purposes of the City and constitute property which the City is permitted to lease under the laws of the State;

(e) In the case of a substitution, the City shall certify in writing to the Authority and the Trustee that the estimated useful life of the Substitute Leased Premises at least extends to the date on which the final Lease Payment becomes due and payable hereunder;

(f) In the case of a substitution, the City shall obtain a CLTA policy of title insurance in accordance with the Lease Agreement;

(g) In the case of a substitution, the substitution of the Substitute Leased Premises shall not cause the City to violate any of its covenants, representations and warranties made herein; and

(h) The City shall obtain and cause to be filed with the Trustee and the Authority an opinion of Bond Counsel stating that such substitution or release is permitted hereunder and does not cause interest on the Bonds to become includable in the gross income of the Bond Owners for federal income tax purposes.

From and after the date on which all of the foregoing conditions precedent to such substitution or release are satisfied, the Lease Agreement shall cease with respect to the Former Leased Premises or Released Leased Premises, as applicable, and shall be continued with respect to the Substitute Leased Premises and the remaining Leased Premises. The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution or release.

In addition, the Lease Agreement may be amended to allow the City to pay additional rental payments for the purpose of securing additional obligations of the Authority, to the extent of excess value of the Leased Premises. See “SECURITY FOR THE BONDS” herein.

THE BONDS

Description of the Bonds

The Bonds will be issued only in the form of fully registered Bonds without coupons, in denominations of \$5,000 or any integral multiple thereof. The Bonds will be dated the date of delivery to the Underwriter, will mature on April 1 in the years and in the respective principal amounts, and will bear interest at the respective rates per annum, all as set forth on the inside front cover hereof. Interest on the Bonds will be paid on April 1 and October 1 of each year, commencing October 1, 2017, by check mailed on the Interest Payment Date to the registered owners of the Bonds as of the applicable Record Date (the fifteenth day of the month preceding each Interest Payment Date); provided however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee at least five (5) days before the applicable Record Date.

The principal of each Bond will be payable upon the surrender of such Bond, at maturity or upon redemption prior to maturity, at the principal corporate trust office of the Trustee in Los Angeles, California.

Redemption

Optional Redemption. The Bonds maturing on or before April 1, 2027 shall not be subject to redemption prior to their respective stated maturities. The Bonds maturing on or after April 1, 2028 shall be subject to redemption at the option of the Authority as a whole or in part, on any date on or after April 1, 2027, from any available source of funds at a redemption price equal to the principal amount of the Bonds to be redeemed together with accrued interest thereon to the date fixed for redemption, without premium.

*Sinking Account Redemption.** The Term Bonds are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on April 1, 2029 and on April 1, 2030 at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to subsections (b) or (c) below, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Term Bonds so redeemed pursuant to this subsection (a) by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Mandatory Sinking Fund Redemption Date	Principal Amount to Be Redeemed
<u>(April 1)</u>	
2029	\$1,045,000
2030	1,080,000

In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of Term 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 may be directed by the Authority prior to the selection of Bonds for redemption, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Term Bonds, as set forth in a Written Request of the Authority.

Special Mandatory Redemption From Insurance or Condemnation Proceeds. The Bonds shall also be subject to redemption as a whole or in part on any date, from Net Proceeds required to be used for such purpose as provided in the Indenture, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

Selection of Bonds for Redemption. Except for Sinking Account Redemption as described above, whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption from such maturities as shall be set forth in a Written Request of the Authority filed with the Trustee, or in the absence of such designation of maturities by the Authority, then on a pro rata basis among maturities, and in any case, by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

Notice of Redemption. Notice of redemption shall be mailed by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days before any redemption date, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Registration Books, and to the Securities Depositories and to one or more of the Information Services. Each notice of redemption shall state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the Bonds (or all Bonds of a single maturity) are to be redeemed, the CUSIP numbers and, if less than all of the Bonds of a maturity are to be redeemed, Bond numbers of the Bonds to be redeemed, the maturity or maturities of the Bonds to be redeemed and in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. In case of an optional redemption as described above, notice of redemption shall be given only if such notice expressly states that such redemption is conditional on receipt by the Trustee of sufficient moneys on the redemption date to pay off the Bonds being redeemed. Each such notice shall also state that on the redemption date there will become due and payable on each of said Bonds the redemption price thereof, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein shall affect the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

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

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 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry System

So long as Cede & Co. is the registered owner of the Bonds, transfer or exchange of Bonds may only be through the facilities of DTC. See APPENDIX F with respect to DTC procedures for transfer and exchange of ownership interests in the Bonds. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX F – "BOOK-ENTRY PROVISIONS" herein.

The Authority, the City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority, the City and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

SECURITY FOR THE BONDS

General

The Indenture provides that, subject to certain rights of the Trustee, the Bonds are equally and ratably payable from and secured by a first lien on and pledge of all Revenues and a pledge of all of the moneys held in the Interest Account, the Principal Account and the Sinking Account, including all amounts derived from the investment of such moneys. "Revenues," as defined in the Indenture, generally means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any amounts payable under Section 4.08(d) of the Lease Agreement; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture. The principal payable with respect to the Lease Payments is \$11,955,000.

The City is obligated to pay Lease Payments under the Lease Agreement from any legally available moneys, including its General Fund. Under California law, the obligation of the City to make Lease Payments is contingent upon the availability of the Leased Premises for use and occupancy by the City. See "Abatement" below. See "THE LEASED PREMISES" herein.

Under the Indenture, the Authority is authorized under certain conditions to issue additional obligations secured by the Revenues. See "Additional Bonds" below. Under the Lease Agreement, the City is allowed to incur other obligations secured by excess value of the Leased Premises.

The Revenues and other funds pledged under the Indenture are the sole security for the Bonds, and the Authority has no other source of funds, other than the Lease Payments, to pay debt service on the Bonds.

See APPENDIX C hereto for a summary of the terms of the Indenture and the Lease Agreement.

THE BONDS ARE NOT A DEBT OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS, OTHER THAN THE AUTHORITY, IS LIABLE THEREFOR. THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM THE REVENUES. THE CITY'S OBLIGATIONS UNDER THE LEASE AGREEMENT ARE UNSECURED OBLIGATIONS PAYABLE FROM ANY LEGALLY AVAILABLE FUNDS OF THE CITY. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR

STATUTORY DEBT LIMIT OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OF THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Lease Payments

The City has covenanted under the Lease Agreement to make Lease Payments for the use and possession of the Leased Premises. So long as the Leased Premises are available for the City's use, the City has covenanted to take such action each year as may be necessary to include all Lease Payments in its annual budget and annually to appropriate an amount necessary to make such Lease Payments (see "Abatement" below). The amounts payable to the Trustee as Lease Payments are to be used to make the payments of principal and interest on the Bonds. The obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Bond Fund or otherwise available from an insurance or eminent domain award) may be abated in whole or in part if the City does not have use and possession of the Leased Premises.

Lease Payments are required to be made by the City under the Lease Agreement on each Interest Payment Date (individually, a "Lease Payment Date"), for use and possession of the Leased Premises to the next occurring Lease Payment Date. The amount of such Lease Payment shall be credited with amounts on deposit in the Bond Fund on such Lease Payment Date. Lease Payments due on each Lease Payment Date shall also be reduced by the amount of earnings received by the Trustee as of such Lease Payment Date from the investment of certain funds held by the Trustee. Lease Payments are required to be deposited in the Bond Fund maintained by the Trustee. Pursuant to the Indenture, on each Interest Payment Date the Trustee will withdraw from the Bond Fund amounts to make principal and interest payments on the Bonds.

The Lease Payments are structured to produce Revenues sufficient to pay principal of and interest on the Bonds when due. While the Lease Payments are subject to optional prepayment, Revenues resulting from such action will be used to redeem a corresponding amount of the Bonds, so that the remaining Lease Payments will be sufficient to pay the scheduled principal and interest payments on the Bonds.

Scheduled Lease Payments relating to the Bonds are set forth herein under the heading "SOURCES AND USES OF BOND FUNDS – Debt Service Schedule."

Additional Bonds

The Authority is authorized in the Indenture, without the consent of the Bondholders, to issue additional obligations secured by a pledge of the Revenues on a parity to the pledge securing the outstanding Bonds, provided the Lease Agreement is amended to obligate the City to pay additional amounts of rental thereunder for the use and occupancy of the Leased Premises, provided that (A) no Event of Default has occurred and is continuing under the Lease Agreement, (B) such additional amounts of rental do not cause the total rental payments made by the City thereunder to exceed the fair rental value of the Leased Premises, as set forth in a certificate of a City Representative filed with the Trustee and the Authority, (C) the City shall have obtained and filed with the Trustee and the Authority a Written Certificate of an Authorized Representative of the City showing that the fair rental value of the Leased Premises is not less than the sum of the aggregate unpaid principal components of the Lease Payments and the aggregate principal components of such additional amounts of rental, (D) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which shall be applied to finance the construction or acquisition of land, facilities or other improvements which are authorized pursuant to the laws of the State, and (E) such additional rental is not at variable rates.

Appropriation; Use of Leased Premises

The City has covenanted to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its proposed annual budgets and its final adopted annual budgets and to

make the necessary appropriations for such Lease Payments and Additional Payments, except to the extent such payments are abated (see “Abatement” below). The foregoing covenant on the part of the City shall be deemed to be and shall be construed to be a duty imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform its covenants and agreements in the Lease Agreement.

The obligation of the City to pay Lease Payments shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor shall such obligations constitute a pledge of general revenues, funds or moneys of the City beyond the Fiscal Year for which the City has appropriated funds to pay Lease Payments or an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Abatement

The Lease Payments allocable to the Leased Premises shall be abated during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial interference with the use and occupancy by the City of the Leased Premises or any portion thereof. The amounts of the Lease Payments under such circumstances may not be less than the amounts of the unpaid Lease Payments, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Leased Premises not damaged or destroyed, based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease Agreement shall continue in full force and effect and the City waives any right to terminate this Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there may be no abatement of Lease Payments to the extent that (a) the proceeds of rental interruption insurance, are available to pay Lease Payments, or (b) amounts in the Bond Fund are available to pay Debt Service payable from Lease Payments which would otherwise be abated.

Action on Default

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement may exercise any and all remedies available pursuant to law. However, the Trustee may not accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or terminate the Lease or cause the leasehold interest of the Authority or the sub-leasehold interest of the City in the Leased Premises to be sold, assigned or otherwise alienated. The City expressly agrees that in the event of any default it will remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and will reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Premises or, in the event the Authority is unable to re-lease the Leased Premises, then for the full amount of all Lease Payments to the end of the term of the Lease Agreement. See “RISK FACTORS” herein.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see APPENDIX C hereto.

Miscellaneous Rent

In addition to the Lease Payments, the City shall pay when due the following items of Miscellaneous Rent:

All fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Premises as and when the same become due and payable;

All compensation and indemnification due to the Trustee pursuant to the Indenture for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;

The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Lease Agreement or the Indenture; and

The reasonable out of pocket expenses of the Authority in connection with the execution and delivery of this Lease Agreement or the Indenture, or in connection with the issuance of the Bonds.

Insurance

The Lease Agreement contains the insurance covenants described below. No assurance can be given that insurance proceeds will be available or, if available, adequate in an amount sufficient to avoid an interruption of Lease Payments. Under such a situation, an abatement of Lease Payments is likely to occur. See “Abatement” above.

The Lease Agreement requires the City to obtain a standard comprehensive general liability insurance policy or policies in protection of the Authority and the City, including their respective members, officers, agents, employees and assigns. Said policy or policies must provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 (subject to a deductible clause of not to exceed \$150,000) covering all such risks.

The Lease Agreement also requires the City to maintain, or cause to be maintained, casualty insurance insuring the facilities on the Leased Premises against loss or damage by fire and lightning, with extended coverage and vandalism and malicious mischief insurance and all other risks in an amount equal to the lesser of 100% of the replacement cost of the facilities or the aggregate unpaid principal components of the Lease Payments allocable to the facilities. Such insurance may be subject to such deductibles as the City deems prudent.

The Lease Agreement further requires the City to cause to be maintained, throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Leased Premises as a result of any of the hazards covered by the insurance in an amount at least equal to the maximum Leased Payments allocable to the facilities coming due and payable during any future 24 month period.

The Lease Agreement allows the City to maintain any such insurance as part of or in conjunction with any other insurance coverage carried by the City or, in whole or in part, in the form of self-insurance by the City or through participation by the City in a joint powers agency or other program providing pooled insurance.

The Lease Agreement also requires the City to obtain an CLTA policy of title insurance insuring the City’s leasehold estate, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds.

See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Lease Agreement – Insurance.”

Insurance proceeds are required to be applied to the repair of the Leased Premises; or if the proceeds are insufficient to repair or replace the Leased Premises, the City may prepay the related Lease Payments and thereby cause the redemption of outstanding Bonds. The Lease Agreement permits the City to satisfy certain of its insurance requirements through a self-insurance program.

No Reserve Account

Neither the City nor the Authority will create or maintain a debt service reserve account with respect to the Lease Payments or for the Bonds.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Bonds. However, the following does not purport to be an exhaustive listing of risk factors and other considerations which may be relevant to an investment in the Bonds. Additionally, there can be no assurance that other risk factors will not become evident at any future time.

No Tax Pledge

The Bonds are special obligations of the Authority, payable solely from Lease Payments and the other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State, or any political subdivision thereof, is pledged to the payment of the Bonds. The Authority has no taxing power.

The obligation of the City to pay the Lease Payments does not constitute an obligation of the City for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt or indebtedness of the City, the Authority, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limit or restriction.

Appropriation

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement, so long as the Leased Premises are available for its use and possession, to pay Lease Payments from any source of legally available funds (subject to certain exceptions) and has covenanted in the Lease Agreement that, for so long as the Leased Premises are available for its use, it will make the necessary annual appropriations within its budget for all Lease Payments. However, the City is currently liable on other obligations payable from general revenues which may have a priority over the Lease Payments (for example, if the City were to issue tax revenue anticipation notes), and the Lease Agreement does not prohibit the City from incurring additional obligations payable from general revenues. See APPENDIX A – “CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION” herein and the financial statements included in APPENDIX B hereto. In the event the City’s revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement, except from amounts on deposit in the Bond Fund. The City’s ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the City to pay Lease Payments when due (see “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” below).

No Limit on Additional General Fund Obligations

The City has the ability to enter into other obligations which may constitute additional charges against its general revenues. To the extent that such additional obligations are incurred by the City, the funds available

to make Lease Payments may be decreased. See also “SECURITY FOR THE BONDS – Additional Bonds” herein.

Abatement and Eminent Domain

Lease Payments are to be paid by the City in each rental period for and in consideration of the right to use and occupy the Leased Premises during each such period. The obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Bond Fund created under the Indenture) may be abated in whole or in part if the City does not have use and possession of the Leased Premises.

The amount of Lease Payments due under the Lease Agreement will be adjusted or abated during any period in which by reason of damage or destruction or eminent domain there is interference with the use and occupancy by the City of the Leased Premises. Such adjustment or abatement will end with the substantial completion or replacement, repair or reconstruction of the Leased Premises. If damage or destruction or eminent domain proceedings with respect to the Leased Premises result in abatement of Lease Payments and the resulting Lease Payments are insufficient to make all payments of principal and interest due on the Bonds during the period that the Leased Premises are being replaced, repaired or reconstructed, then such payments of principal and interest may not be made and no remedy is available to the Trustee or the Owners of the Bonds, under the Lease Agreement or Indenture, for nonpayment under such circumstances.

No Reserve Fund

Neither the City nor the Authority will create or maintain a debt service reserve account with respect to the Lease Payments or for the Bonds.

Sufficiency of Lease Payments

The Lease Payments are structured to produce Revenues sufficient to pay principal of, and interest on, the Bonds when due. While the Lease Payments are subject to optional prepayment, Revenues resulting from such actions will be sufficient to redeem a corresponding amount of the Bonds, so that the remaining Lease Payments will be sufficient to pay remaining debt service on the Bonds. The Authority has no other source of funds available to pay principal of and interest on the Bonds.

Limitation on Enforcement of Remedies; No Acceleration

The enforcement of any remedies provided in the Lease Agreement and Indenture could prove both expensive and time consuming. Although the Lease Agreement provides that the Trustee may take possession of the Leased Premises and lease it if there is a default by the City, and the Lease Agreement provides that the Trustee may have such rights of access to the Leased Premises as may be necessary to exercise any remedies, portions of such Leased Premises may not be easily subject to reletting and could be of little value to others. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto.

The rights of the Owners of the Bonds are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

IN THE EVENT OF A DEFAULT UNDER THE LEASE AGREEMENT, THERE IS NO AVAILABLE REMEDY OF ACCELERATION OF THE TOTAL LEASE PAYMENTS DUE OVER THE TERM OF THE LEASE AGREEMENT. THE CITY WILL ONLY BE LIABLE FOR LEASE PAYMENTS ON AN ANNUAL BASIS AS THEY COME DUE, AND THE TRUSTEE WOULD BE REQUIRED TO SEEK SEPARATE JUDGMENTS FOR THE LEASE PAYMENTS AS THEY COME DUE. IN ADDITION, ANY SUCH SUIT FOR MONEY DAMAGES COULD BE SUBJECT TO LIMITATIONS ON LEGAL

REMEDIES AGAINST PUBLIC AGENCIES IN CALIFORNIA, INCLUDING A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS NEEDED TO SERVE THE PUBLIC WELFARE AND INTEREST AND A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS OF A FISCAL YEAR OTHER THAN THE FISCAL YEAR IN WHICH THE LEASE PAYMENTS WERE DUE.

Seismic, Topographic and Climatic Conditions

The value of the Leased Premises, and the financial stability of the City, can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods) and climatic conditions (such as droughts and tornadoes).

The area encompassed by the City, like that in much of California, may be subject to unpredictable seismic activity. The City is located within an alluvial plain and liquefaction area. There are no special study zones within the City. Although the City believes that no active or inactive fault lines pass through the City, if there were to be an occurrence of severe seismic activity in the City, there could be an abatement or adverse impact on the City's ability to pay the Lease Payments. The City is not obligated to maintain earthquake insurance with respect to the Leased Premises.

Building codes require that some of these factors be taken into account, to a limited extent, in the design of improvements, including improvements of the Leased Premises. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the City. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur and may result in damage to improvements of varying seriousness, such that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of the Leased Premises, as well as public and private improvements within the City in general, may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition. See "Abatement and Eminent Domain" above.

The City is exposed to a variety of wildfire hazard conditions ranging from very low levels of risk along the coastal portions of the City, to more severe hazards in the inland areas. The Project is located on the western, or coastal, side of Interstate 5, and is not considered at significant risk. Currently, fire hazard severity is a function of fuel conditions, historic climate, wind conditions, and topography. Population density or the number of structures in a particular region are not currently used to determine the fire hazard severity for a particular region. The fact that an area is in a low to moderate hazard area does not mean it cannot experience a damaging fire; it means only that the probability is reduced, generally because the number of days a year that the area has "fire weather" is less.

Hazardous Substances

An environmental condition that may result in the reduction in the assessed value of parcels would be the discovery of any hazardous substance that would limit the beneficial use of a property within the City, or the value of the Leased Premises. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act" is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws,

the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should the Leased Premises or any substantial amount of property within the City be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Such reduction could adversely impact the property tax revenues received by the City and deposited in the General Fund, which could significantly and adversely affect the operations and finances of the City. The City and the Authority do not believe that the use of any of such substances has adversely affected the value of the Leased Premises.

Public Debt Burden on Leased Premises

The ability of land owners within the City to pay property tax installments as they come due could be affected by the existence of other taxes and assessments, imposed upon the land. In addition, other public agencies whose boundaries overlap those of the City could, without consent of the City, and in certain cases without the consent of the owners of the land within the City, impose additional taxes or assessment liens on the property within the City to finance public improvements to be located inside of or outside of the City. See APPENDIX A hereto for a statement of direct and overlapping debt on property within the City.

Risk of Uninsured Loss

The City covenants under the Lease Agreement to cause to be maintained certain insurance policies on the Leased Premises. These insurance policies do not cover all types of risk. For instance, the City does not covenant to maintain earthquake insurance. The City may self-insure in certain circumstances. Moreover, the insurance maintained by the City may provide for deductible amounts. The Leased Premises could be damaged or destroyed due to earthquake or other casualty for which the Leased Premises are uninsured. Under these circumstances, an abatement of Lease Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City's liability and rental interruption insurance will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Premises will be sufficient to prepay the Lease Payments which secure the Bonds.

Property Tax Allocation by the State; Changes in Law

The responsibility for allocating general property taxes was assigned to the State by Proposition 13, which stated that property taxes were to be allocated "according to law." The formula for such allocation was contained in Assembly Bill 8 ("AB 8"), adopted in 1978, which allocates property taxes among cities, counties, and school districts. The formulas contained in AB 8 were designed to allocate property taxes in proportion to the share of property taxes received by a local entity prior to Proposition 13. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Limitations on Revenues."

Beginning in its fiscal year 1992-93, in response to its own budgetary shortfalls, the State began to permanently redirect billions of dollars of property taxes Statewide from cities, counties, and certain special districts to schools and community college districts. These redirected funds reduced the State's funding obligation for K-14 school districts by a commensurate amount. In response, Proposition 1A of 2004, approved by State voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain limitations. However, pursuant to Proposition 1A and beginning in Fiscal Year 2008-09, the State could, upon gubernatorial proclamation of fiscal hardship and following approval of two-thirds of both houses of the legislature, and it did, shift to schools and community colleges up to 8% of local government ad valorem property tax revenues, which amount must be repaid, with interest, within three years. The State could also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. In November 2010, State voters approved Proposition 22,

which amends the State's constitution to eliminate the State's authority to temporarily shift additional ad valorem property taxes from cities, counties and special districts to schools, among other things. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS, – Voter Initiatives."

No assurance can be given that the State, the County's or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State in a manner that could result in a reduction of the City's property tax allocations or its other revenues and therefore a reduction of the funds legally available to the City to pay Lease Payments and other payments due under the Lease Agreement. See, for example, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIIC and Article XIID of the State Constitution."

Bankruptcy and Foreclosure

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. Additionally, failure by major property owners to pay property taxes when due will have an adverse impact on revenues of the City available to pay Lease Payments, and would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds. The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Federal Tax-Exempt Status of the Bonds

Tax-Exempt Status of Interest on the Bonds. The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of Bond proceeds, limitations on the investment earnings on Bonds proceeds prior to expenditure, a requirement that certain investment earnings on the Bond proceeds be paid periodically to the United States and a requirement that the issuers file an information report with the Internal Revenue Service (the "IRS"). The Authority and the City have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance of such Bonds.

Audit. As a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly under the TE/GE Division. There is no assurance that an IRS examination of the Series A Bonds, if one is undertaken, will not adversely affect the tax-exempt status or market value of such Series A Bonds.

Secondary Market Risk

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such 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 in connection with a particular issue 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.

Substitution and Removal of Leased Premises

The Authority and the City may, under the terms of the Lease Agreement, substitute alternate real property for any portion of the Leased Premises or release a portion of the Leased Premises from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Leased Premises for which the substitution or release has been effected shall be released from the leasehold encumbrance of the Lease Agreement. See “THE LEASED PREMISES – Substitution of Leased Premises” herein.

No Liability of Authority to the Owners

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Bonds with respect to the payment when due of the Lease Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Limitations on Revenues

Article XIII A of the California Constitution. Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to one percent of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the one-percent limitation does not apply to ad valorem taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any ad valorem property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a

change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII C and Article XIII D of the California Constitution. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIII C define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

Taxes. Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the City’s General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Property-Related Fees, Charges and Assessments. Article XIII D also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIII D, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Reduction or Repeal of Taxes, Fees and Charges. Article XIII C also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. If such repeal or reduction occurs, the City’s ability to pay debt service on the Bonds could be adversely affected.

Burden of Proof. Article XIII C provides that 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.” Similarly, Article XIID provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIID.

Impact on City’s General Fund. The approval requirements of Articles XIIC and XIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

The City does not believe that any material source of General Fund revenue is subject to challenge under Articles XIIC or XIID.

Judicial Interpretation. The interpretation and application of Articles XIIC and XIID will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Expenditures and Appropriations

Article XIIB of the California Constitution. In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual “appropriations limit” or “Gann Limit” imposed by Article XIIB of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIIB, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” exclude tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds that are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Article XIIB also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity each have their own appropriations limits. Each year, each limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceed the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years. If the State’s aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State’s contribution to school and college districts.

Voter Initiatives

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, the most recent of which was approved as Proposition 22 in the general election held on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Lease Payments.

Proposition 62. On November 4, 1986, California voters adopted Proposition 62, which requires that (i) any local tax for general governmental purposes (a “general tax”) must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a “special tax”) must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency’s property tax allocation.

Most of the provisions of Proposition 62, which was a statutory initiative, were affirmed by the 1995 California Supreme Court decision in Santa Clara County Local Transportation Authority v. Guardino, which invalidated a special sales tax for transportation purposes because less than two-thirds of the voters voting on the measure had approved the tax. Claims for taxpayer relief where a local entity may have violated Proposition 62 are subject to a three-year statute of limitations, created by statute. In the case Howard Jarvis Taxpayers Association v. City of La Habra (2001), the California Supreme Court determined that this statute of limitations begins to run anew every time the city collects the challenged tax.

Proposition 1A of 2004. Proposition 1A of 2004, proposed by the Legislature in connection with the State’s Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A of 2004 generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year , as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county had to be approved by two-thirds of both houses of the Legislature.

Proposition 1A of 2004 provided, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaimed that the shift is needed due to a severe state financial hardship, the shift was approved by two-thirds of both houses and certain other conditions were met. The State could also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Pending certain State actions, a Prop 1A shift could occur in State fiscal year in future fiscal years.

See APPENDIX A – “CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION – State Budget and its Impact on the City” for information about the State’s budgets and shifts of local property revenues under Proposition 1A of 2004 (which must be repaid within three years).

Proposition 22. Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010.

Proposition 22 eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988-89 Fiscal Year, are allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

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: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that Proposition 26 will adversely affect its General Fund revenues.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Propositions 1A of 2004, 22, 26 and 62 were each adopted as measures that qualified for the ballot through California’s initiative process. From time to time, other initiative measures could be adopted, further affecting the City or its revenues or the ability of the City to expend revenues.

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, provided however, that for the purpose of calculating federal corporate alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority has covenanted to comply with certain restrictions designed to insure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bond Owners from realizing the full current benefit of the tax status of such interest. For example, legislative proposals are made from time to time which generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to the exclusion from gross income of interest on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Best Best & Krieger LLP.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of other similar bonds).

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and that interest on the Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bond Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bond Owner's other items of income or deduction, and Bond Counsel expresses no opinion regarding any such other tax consequences.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than March 1 of each year commencing with the report for the 2016-17 fiscal year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the Dissemination Agent with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") or any successor assigned by the Municipal Securities Rulemaking Board or Securities and Exchange Commission. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12

promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”). The specific nature of the information to be contained in the Annual Report or the notices of enumerated events by the District is set forth in APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

During the last five years the City, the Encinitas Public Financing Authority (the “Financing Authority”), the San Elijo Joint Powers Authority (the “JPA”), the San Dieguito Water District (the “District”) the Encinitas Ranch Golf Authority (the “Golf Authority”) and the R.E. Badger Water Facilities Financing Authority (the “R.E. Badger Authority”) failed to comply in certain respects with continuing disclosure obligations related to outstanding bonded indebtedness. The failures to comply primarily include, but are not limited to (i) failure to provide significant event notices with respect to changes in the ratings of outstanding indebtedness, primarily related to changes in the ratings of various bond insurers insuring the indebtedness of the City or its related entities; and (ii) incomplete, missing or late filing of annual reports with respect to certain bond issues. The incomplete filings are described below in detail.

For its City of Encinitas 1997 Refunding Certificates of Participation, Series A (Civic Center Project), the City filed past the filing deadline its annual report for Fiscal Year ending June 30, 2013 and its audited financial statements for Fiscal Year ending June 30, 2013, and ratings event notices.

Ratings event notices were not filed timely for the Encinitas Public Financing Authority 2001 Lease Revenue Bonds, Series A (Acquisition Project), the San Elijo Joint Powers Authority San Diego County, California 2003 Refunding Revenue Bonds (San Elijo Wastewater Treatment Facilities), the San Dieguito Water District (San Diego County, California) Water Revenue Refunding Bonds, Series 2004, the City of Encinitas Community Facilities District No. 1 2004 Bonds, the Encinitas Public Financing Authority 2010 Lease Revenue Bonds, Series A (Park Project) and the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility).

For the R.E. Badger Water Facilities Financing Authority 2007 Water Revenue Refunding Bonds, the R.E. Badger Authority (1) filed past the filing deadline the District’s annual reports for Fiscal Years ending June 30, 2011, 2012 and 2013, (2) filed past the filing deadline the District’s audited financial statements for Fiscal Years ending June 30, 2012 and 2013, and (3) filed past the filing deadline ratings event notices.

For the San Elijo Joint Powers Authority 2011 Refunding Revenue Bonds (San Elijo Water Reclamation Facility), the City filed past the filing deadline the City’s annual reports for Fiscal Year ending June 30, 2012.

In addition to the listed incomplete filings of annual disclosure reports, the City has outstanding Assessment District No. 93-1 (Requeza Street/Bracero Road) Limited Obligation Improvement Bonds, Series A and Subordinate Series B. The City has timely filed the annual reports for the Assessment District Bonds, however the City has not included the City’s Audited Financial Statements with the annual reports.

In order to ensure ongoing compliance by the City, on behalf of itself and its related agencies, with the continuing disclosure undertakings, (i) the City has instituted new procedures to ensure future compliance and coordination by the City and its related agencies as part of its financial reporting policies; and (ii) the City has contracted with a consultant to assist the City in filing accurate, complete and timely disclosure reports on behalf of the City and its related agencies.

The City was advised by Southwest Securities, Inc. that the City was reported by Southwest Securities, Inc. under the Municipalities Continuing Disclosure Cooperation (“MCDC”) initiative of the SEC. The reporting relates to the Encinitas Public Financing Authority 2010 Lease Revenue Bonds (the “2010 Authority Bonds”) and the statement in the official statement for the 2010 Authority Bonds that the City was in compliance with all continuing disclosure requirements. MCDC was a program allowing issuers and underwriters to voluntarily report non-compliance with disclosure obligations. The SEC has concluded its MCDC review for such period and the City was not contacted in connection with such review.

CERTAIN LEGAL MATTERS

Best Best & Krieger LLP, Riverside, California, Bond Counsel, will render an opinion with respect to the validity and enforceability of the Indenture and the Lease Agreement, and as to the validity of the Bonds. Best Best & Krieger LLP, Riverside, California has acted as disclosure counsel for the City and Authority in connection with the issuance of the Bonds. Certain matters will be passed upon for the Authority and the City by the City Attorney.

LITIGATION

To the best knowledge of the City and the Authority, there is no action, suit or proceeding pending or, to the knowledge of City or Authority officials, threatened, restraining or enjoining the execution or delivery of the Bonds, the Lease Agreement, or the Indenture, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the City taken with respect to any of the foregoing.

MUNICIPAL ADVISOR

The Authority has retained Fieldman, Rolapp & Associates, Irvine, California, as Municipal Advisor (the “Municipal Advisor”) for the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained 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.

FINANCIAL STATEMENTS

The general purpose financial statements of the City for the Fiscal Year ending June 30, 2016, pertinent sections of which are included in APPENDIX B to this Official Statement, have been audited by Pun Group LLP, independent certified public accountants, as stated in their report appearing in APPENDIX B. The City has not requested, and the auditor has not provided, any consent to the inclusion of its report herein or any update or review of its report in connection with its inclusion in this Official Statement. See APPENDIX B hereto.

RATINGS

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) has assigned an unsecured rating of “AA+” to the Bonds. Such rating reflects only the views of S&P, and any desired explanation of the significance of such ratings may be obtained from such rating agency at the following address: S&P Global Ratings, 55 Water Street, New York, New York 10041, (212) 438-2000. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Except as otherwise required in the Continuing Disclosure Agreement, the Authority undertakes no responsibility either to bring to the attention of the owners of any Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

SALE OF THE BONDS

The Bonds were sold by competitive bid on February 7, 2017. The Bonds were awarded to Fidelity Capital Markets (the “Underwriter”), who submitted the lowest true interest cost bid, at a purchase price of

\$13,241,326.33. Under the terms of its bid, the Underwriter will be obligated to purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Bond Counsel, and certain other conditions to be satisfied by the Bonds.

The Underwriter has provided the reoffering prices or yields for the Bonds set forth on the inside cover of this Official Statement, and the Authority and City undertake no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the Bonds is \$1,360,283.55 and the Underwriter's gross compensation (or "spread") is \$73,957.22.

APPENDIX A

CITY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

The information herein is subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the Bonds shall under any circumstances imply that there has not been any change in the affairs of the City or in any other information contained herein since the date of the Official Statement. The Bonds are payable solely from the sources described herein (see “SECURITY FOR THE BONDS”). The taxing power of the City of Encinitas, the County of San Diego, the State of California or any political subdivision thereof is not pledged to the payment of the Bonds. See the information under the caption “THE BONDS.”

General

The City was incorporated in October 1986. The City’s incorporation involved a reorganization consisting primarily of the incorporation of the City of Encinitas; the detachment of territory from the Cardiff Sanitation District and annexation of the same territory to the Solana Beach Sanitation District; and the establishment of the Encinitas Fire Protection District, the San Dieguito Water District (the “Water District”) and the Encinitas Sanitation District as subsidiary districts of the City. Currently, all of the subsidiary districts, excluding the Water District, have been absorbed by the City as separate accounting divisions.

The City is located in the northern coastal area of San Diego County (the “County”) overlooking the Pacific Ocean. The City encompasses approximately 21.4 square miles and is located approximately 25 miles north of the City of San Diego and immediately north of the City of Solana Beach. Topography of the surrounding area varies from broad coastal plains to fertile inland valleys backed up by mountain ranges to the east. The climate is equable in the coastal and valley regions.

The City maintains a website at www.encinitas.org. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Bonds.

City Government

The City is a general law city and operates under a council-manager form of government. The City Council consists of four members elected at large, who also serve as the Board of Directors of the three subsidiary districts of the City. Council members serve four-year terms, with elections every two years for either two or three seats. The Mayor is elected city-wide for a two year term. The Mayor sits as a member of the subsidiary districts of the City. The City Manager is appointed by the City Council and serves as the City Council’s administrative head of the City. All other city employees are appointed by and are responsible to the City Manager, except the City Attorney and the City Clerk, who are appointed by the City Council.

The City supplies portions of its residents with water and sewer service through its subsidiary districts. The northern portion of the City is provided with sewer service by the independent Leucadia County Wastewater District. The eastern half of the City receives potable water from the Olivenhain Municipal Water District. Power is supplied by San Diego Gas and Electric, and telephone service by Pacific Bell. The City has its own parks and community services departments, but contracts for police service from the County. The current contract with the County for law enforcement services extends through the period July 1, 2012 to June 30, 2017.

Population

At incorporation in 1986, there were about 48,558 people in the City limits. As of January 1, 2016, the California Department of Finance estimates that Encinitas has grown to a population of 61,928, and expects to

be built out according to general plan estimates at 73,600. Encinitas is a low density community consisting predominately of single family homes.

**TABLE A-1
CITY OF ENCINITAS
ANNUAL POPULATION ESTIMATES
(As of January 1)**

<u>Year</u>	<u>City of Encinitas</u>	<u>San Diego County</u>	<u>State of California</u>
2011	59,819	3,118,876	37,510,760
2012	60,016	3,143,429	37,678,563
2013	60,699	3,154,574	37,984,138
2014	61,042	3,192,457	38,357,121
2015	61,518	3,227,496	38,714,725
2016	61,928	3,288,612	39,255,883

Source: California State Department of Finance.

Employees and Labor Relations

The City currently employs 218.9 full-time equivalent employees, including 69 fire safety and marine personnel. The following table presents the number of full-time City employees for the Fiscal Years 2011/12 through 2015/16.

**TABLE A-2
CITY OF ENCINITAS
FULL-TIME CITY EMPLOYEES
(Fiscal Years 2010/11 through 2015/16)**

<u>Fiscal Year</u>	<u>Number of Full-Time Employees⁽¹⁾</u>
2010/11	212
2011/12	213
2012/13	212
2013/14	216
2014/15	216
2015/16	219

⁽¹⁾ San Dieguito Water District employees are not included as employees of the City. There are approximately 25 SDWD employees.
Source: City of Encinitas Finance Department.

Approximately 67% of regular City employees are represented by various associations, and labor relations have been generally amicable. There has not been any recent major strikes, work stoppages, or other similar incidents. The following table provides a list of employee organizations in the City and the number of employees they represent as of January 1, 2016.

**TABLE A-3
CITY OF ENCINITAS
EMPLOYEE ORGANIZATIONS
(As of January 1, 2016)**

<u>Organization</u>	<u>Employees Represented</u>	<u>Expiration of Contract</u>
Service Employees International Union (Local 2028)	95	June 30, 2019
Encinitas Firefighters Assoc.	51	December 31, 2017

Source: City of Encinitas.

Accounting Policies and Financial Reporting

The City’s accounting records are organized and operated on a “fund” basis, which is the basic fiscal and accounting unit in governmental accounting. The operations of the different funds are accounted for with separate sets of self-balancing accounts showing assets, liabilities, fund balance or equity, and revenues and expenses. The basis of accounting for all funds is more fully explained in the “Notes to the City of Encinitas General Purpose Financial Statements” contained in APPENDIX B hereto.

The City, all its funds and the Encinitas Public Financing Authority are audited annually by a certified public accounting firm. The Pun Group LLP, San Diego, California, is the City’s current auditor. The audited financial statements of the City for Fiscal Year 2015/16 are attached hereto as APPENDIX B. The auditor has not been requested to review such audited financial statements prior to inclusion in this Official Statement. Audited financial statements for prior fiscal years are available upon request from the Finance Department of the City or on its website at www.cityofencinitas.org.

The City General Fund finances the legally authorized activities of the City not provided for in other restricted funds. General fund revenues are derived from such sources as taxes; licenses and permits, fines, forfeits and penalties; use of money and property; aid from other governmental agencies; charges for current services; and other revenue. General Fund expenditures and encumbrances are classified by the functions of general government, planning and building, public safety, public works, engineering and parks and recreation. Amounts on deposit in the Bond Fund held by the Trustee are pledged to payment of Lease Payments and are not available for other uses by the City.

State Budget and its Impact on the City

Set forth in the following paragraphs are descriptions of the State budget process, the current State budget situation, and the potential impacts on the City.

State Budget Information

State Budgeting Process. According to the State Constitution, the Governor is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a majority vote of each house of the State Legislature no later than June 15, although this deadline is routinely breached. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. The following information concerning the State’s budget for fiscal year 2016-17 has been obtained from publicly available information that the City believes to be reliable; however, the City takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the State Department of Finance (the “DOF”), <http://www.dof.ca.gov>, under the heading “California Budget.” An impartial analysis of the budget is posted by the Legislative Analyst's Office (the “LAO”) at <http://www.lao.ca.gov>. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on counties in the State, may be found at the website of the State Treasurer, <http://www.treasurer.ca.gov>. The information referred to is prepared by the respective State agency maintaining each website and not by the City, the Authority or the Underwriter, and the City, the Authority and the Underwriter take no responsibility for the continued accuracy of these Internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2016-17

On June 27, 2016, the Governor signed into the law the State budget for fiscal year 2016-17 (the “2016-17 Budget”). The following information is drawn from the Department of Finance's summary of the 2016-17 Budget and the LAO's preliminary review of the 2016-17 Budget.

The 2016-17 Budget projects, for fiscal year 2015-16, total general fund revenues and transfers of \$117.0 billion and total expenditures of \$115.6 billion. The State is projected to end fiscal year 2015-16 with total available reserves of \$7.3 billion, including \$3.9 billion in the traditional general fund reserve and \$3.4 billion in the Budget Stabilization Account (the “BSA”), the State's basic reserve account. For fiscal year 2016-17, the 2016-17 Budget projects a growth in State general fund revenues driven primarily by total general fund revenues of \$120.3 billion and authorizes expenditures of \$122.5 billion. The State is projected to end the fiscal year 2016-17 with total available reserves of \$8.5 billion, including \$1.8 billion in the traditional general fund reserve and \$6.7 billion in the BSA.

As a result of higher general fund revenue estimates for fiscal years 2015-16 and 2016-17, and after accounting for expenditures that are controlled by State Constitutional funding requirements such as Proposition 2 and Proposition 98, the 2016-17 Budget allocates over \$6 billion in discretionary funding for various purposes. These include: (i) additional deposits of \$2 billion to the BSA and \$600 million to the State's discretionary budget reserve fund; (ii) approximately \$2.9 billion in one-time funding for infrastructure, affordable housing, public safety and other purposes; and (iii) \$700 million in on-going funding commitments for higher education (the California State University and the University of California systems), corrections and rehabilitation and State courts.

As required by Proposition 2, the 2016-17 Budget applies \$1.3 billion towards the repayment of existing State liabilities, including loans from special funds, State and University of California pension and retiree health benefits and settle-up payments to K-14 school districts resulting from an underfunding of the Proposition 98 minimum funding guarantee in a prior fiscal year. With respect to education funding, the 2016-17 Budget sets the Proposition 98 minimum funding guarantee at \$71.9 billion, an increase of \$2.8 billion over the revised level from the prior fiscal year.

For additional information regarding the 2016-17 Budget, see the DOF website at www.dof.ca.gov and the LAO's website at www.lao.ca.gov. The information presented on such websites is not incorporated herein by reference.

Potential Impact of State Financial Condition on the City

The State experienced significant financial stress during the last economic recession, with budget shortfalls in the several billions of dollars. There can be no assurance that, as a result of such State financial stress, the State will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State's financial difficulties.

Although the State is not a significant source of City revenues, no prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. There can be no assurance that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

Future State Budgets

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

Budgetary Process and Current Budget

The City develops a two-year operating budget for planning purposes and appropriates funds annually for operations and to fund the capital improvement program prior to the start of each fiscal year. The Council conducts a public hearing (workshop) prior to adopting the budget. Supplemental appropriations, where required during the fiscal year, are also approved by the Council. The authority for budgetary control is at the department level. A department head may transfer appropriations within the department. Expenditures may exceed appropriations to the extent that departmental revenues are sufficient to offset the excess. Expenditures in excess of departmental revenues must be approved by the Council. The Council, by the affirmative vote of three members, may amend the budget to add or delete appropriations, transfer between appropriations within a fund or change appropriations transfers between funds. An item of Required Supplementary Information, pursuant to GASB 34, is a Budgetary Comparison Schedule of the Original Adopted Budget and the Final Budget for the General Fund and all major Special Revenue Funds with explanations of the major changes. That schedule is included in the financial report in APPENDIX B for Fiscal Year 2015/16.

Set forth in Table A-4 is the General Fund budget for Fiscal Year 2015/16 compared with actual results and the adopted budget for Fiscal Year 2016/17. During the course of each Fiscal Year, the budget is amended and revised as necessary by the City Council. The adopted budget for each fiscal year shown below is the final adopted budget as adjusted by the City Council.

**TABLE A-4
CITY OF ENCINITAS
GENERAL FUND BUDGETS AND RESULTS**

	Adopted 2015/16 Fiscal Year Budget	Final 2015/16 Fiscal Year Budget	Actuals Fiscal Year 2015/16	Final Budget vs. Actuals	Adopted 2016/17 Budget
Revenues:					
Taxes	\$ 55,962,564	\$ 57,154,675	\$ 58,479,429	\$1,324,754	\$ 59,046,571
Licenses and permits	250,000	250,000	232,227	(17,773)	249,000
Intergovernmental	500,679	987,034	801,966	(185,068)	510,693
Charges for services	6,627,762	6,383,627	6,585,518	201,891	6,138,225
Fines, forfeitures and penalties	674,750	734,750	889,388	154,638	679,303
Use of money and property	426,547	591,547	972,663	381,116	671,940
Other	590,000	596,300	779,892	183,592	597,900
Total Revenues	<u>\$ 65,032,302</u>	<u>\$ 66,697,933</u>	<u>\$ 68,741,083</u>	<u>\$2,043,150</u>	<u>\$ 67,893,632</u>
Expenditures:					
General government	\$ 9,403,143	\$ 9,630,619	\$ 9,096,174	\$ 534,445	\$ 10,387,082
Planning and building	5,170,667	5,213,990	4,896,957	317,033	5,331,249
Public safety	27,270,556	27,374,269	26,775,120	599,149	28,200,386
Engineering and Public Works	8,441,570	8,684,280	8,049,765	634,515	8,673,227
Parks and recreation	6,329,880	6,428,058	6,112,079	\$315,979	6,520,522
Total expenditures	<u>\$ 56,615,816</u>	<u>\$ 57,331,216</u>	<u>\$ 54,930,095</u>	<u>\$2,401,121</u>	<u>\$ 59,112,466</u>
Excess of revenues over expenditures	<u>\$ 8,416,486</u>	<u>\$ 9,366,717</u>	<u>\$ 13,810,988</u>	<u>\$4,444,271</u>	<u>\$ 8,781,166</u>
Other Financing Sources:					
Transfers in – Operating	\$ 1,184,360	\$ 1,174,360	\$ 1,056,452	\$ (117,908)	\$ 1,174,360
Transfers in – Capital	-	462,722	462,722	-	-
Transfers out – Operating	(2,636,724)	(2,870,990)	(2,849,747)	21,243	(2,728,739)
Transfers out – Debt Service	(4,994,187)	(4,994,187)	(4,994,648)	(461)	(4,250,552)
Transfers out – Capital	(4,969,090)	(16,065,203)	(16,003,668) ⁽¹⁾	61,535	(12,762,997)
Total Transfers	<u>\$(11,425,641)</u>	<u>\$(22,293,298)</u>	<u>\$(22,328,889)</u>	<u>\$ (35,591)</u>	<u>\$(18,567,928)</u>
Excess Revenues Over Expenditure after Other Financing Sources	<u>\$ (3,009,155)</u>	<u>\$(12,926,581)</u>	<u>\$(8,517,901)</u>	<u>\$ 4,408,680</u>	<u>\$ (9,786,762)</u>

⁽¹⁾ During FY 2015/16 all Funds committed to capital projects were transferred to the Capital Improvement Fund resulting in a larger than normal transfer out of the General Fund.

Source: City of Encinitas 2015/16 Audited Financial Statements. City of Encinitas Adopted Budget for Fiscal Years 2016/17.

The City Council adopted a balanced Fiscal Year 2016/17 budget, which reflects an approximately 1.9% increase in annual growth of taxes and assessments and a 2.6% increase in expenditures as compared to Fiscal Year 2015/16 budget.

The following table summarizes the Fiscal Year 2015/16 City Budget and the 2016/17 City Budget. The City may make minor mid-year adjustments to the current adopted budget.

TABLE A-5
CITY OF ENCINITAS
GENERAL FUND BUDGET
(Fiscal Year 2015/16 and 2016/17)

	2015-16	2016-17
	<u>Budget</u>	<u>Budget</u>
Revenues:		
Taxes	\$55,962,564	\$ 57,040,613
Licenses and permits	250,000	255,000
Intergovernmental	500,679	510,693
Charges for services	6,627,762	6,627,762
Fines, forfeitures and penalties	674,750	679,303
Use of money and property	426,547	410,563
Other	<u>590,000</u>	<u>595,900</u>
Total Revenues	<u>\$ 65,032,302</u>	<u>\$ 66,119,834</u>
Expenditures:		
General government	\$ 9,403,143	\$ 9,758,770
Planning and building	5,087,167	5,198,170
Public safety	27,354,056	28,156,348
Engineering and Public Works	8,441,570	8,473,872
Parks and recreation	<u>6,329,880</u>	<u>6,505,130</u>
Total expenditures	\$ 56,615,816	\$ 58,092,290
Excess of revenues over expenditures	\$ 8,416,486	\$ 8,027,544
Other Financing Sources:		
Transfers in – Operating	\$ 1,174,360	\$ 1,174,360
Transfers out – Operating	(2,636,724)	(2,643,988)
Transfers out – Debt Service	(4,994,187)	(4,986,009)
Transfers out – Capital	<u>(4,969,090)</u>	<u>(3,716,997)</u>
Other Financing Sources	<u>\$(11,225,641)</u>	<u>\$(10,172,634)</u>

Source: Adopted Budget of City of Encinitas for Fiscal Year 2016-17.

Historic General Fund Revenues

Taxes received by the City include property taxes, sales taxes, franchise fees, property transfer taxes and transient occupancy taxes. Of such taxes, property taxes and sales taxes constitute the major sources of revenues. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Voter Initiative,” – “Proposition 62” and – “Proposition 218” herein for a discussion of certain general taxes imposed by the City that may be affected by initiatives approved by the California voters. A significant revenue source of the City is State of California payments and other payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles fees collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as “intergovernmental revenues.”

The State 2004/05 budget included a permanent reduction of vehicle license rate from 2% to 0.65%. Backfill dollars for this reduction have been eliminated and replaced with a like amount of property taxes (property taxes in-lieu of VLF).

The following table illustrates the property tax revenues, sales tax revenues and other revenue sources of the City’s General Fund for Fiscal Years 2006/07 through 2015/16.

**TABLE A-6
CITY OF ENCINITAS
HISTORICAL GENERAL FUND REVENUES
(As of June 30)**

Fiscal Year (June 30)	Property Tax Revenues⁽¹⁾⁽²⁾	Sales Tax Revenues⁽²⁾	Other Taxes	Charges for Services	Other Revenue⁽⁴⁾	Total Revenues
2007	\$32,101,532	\$ 8,306,912	\$ 3,404,932	\$ 6,973,457	\$ 5,338,932	\$56,125,765
2008	33,500,832	8,226,837	3,555,859	7,189,773	5,739,787	58,213,088
2009	34,784,367	7,436,678	3,323,734	5,888,331	4,340,460	55,773,570
2010	31,941,731	9,324,936	3,319,744	5,164,315	3,899,537	53,650,263
2011	31,907,978	10,244,506	3,527,052	6,376,261	3,162,161	55,217,958
2012	32,303,822	10,613,188	3,760,075	4,406,737	2,891,038	53,974,860 ⁽³⁾
2013	33,699,290	11,585,145	3,855,930	4,450,756	2,828,221	56,419,342
2014	35,133,220	12,067,360	3,966,089	5,479,847	2,571,871	59,218,387
2015	37,065,258	12,569,119	4,415,300	5,315,721	3,164,831	62,530,229
2016	39,700,730	14,166,771	4,611,928	6,585,518	3,676,136	68,741,083

⁽¹⁾ Includes delinquent collections from prior year.

⁽²⁾ Amounts reflect the State shift of 0.25% local sales tax and in-lieu vehicle license fees to property taxes, beginning in Fiscal Year 2004/05. Vehicle license fees are not a material source of revenue for the City.

⁽³⁾ Drop in revenue represents a reclassification of Self Insurance revenue from General Fund to an internal service fund.

⁽⁴⁾ Reductions in “Other Revenues” are due to reductions in interest earnings on deposits and due to reductions in borrowed funds accounted for as revenue.

Source: City of Encinitas.

Property Taxes. Property tax receipts provide the largest tax revenue source of the City in each fiscal year. Property in the State which is subject to ad valorem taxes is classified as “secured” or “unsecured.” The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens, arising pursuant to State law, on the secured property, regardless of the time of the creation of other liens. The valuation of property is determined as of January 1 each year, and installments of taxes levied upon secured property become delinquent on the following December 10th and April 10th of the subsequent calendar year. Taxes on unsecured property are due July 1 and become delinquent August 31.

Secured and unsecured properties are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The exclusive means of forcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes of the State for the amount of taxes that are delinquent. The taxing authority has four methods of collecting unsecured personal property taxes: (1) filing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recording in the county recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements or possessory interests belonging or taxable to the assessee. The County of San Diego has adopted a Teeter Plan with respect to property tax disbursements, however, the City has elected not to participate.

A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, beginning on the July 1 following a delinquency, interest begins accruing at the rate of 1.5% per month on the amount delinquent. Such property may thereafter be redeemed by the payment of the delinquent taxes and the 10% penalty, plus interest at the rate of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to the delinquent taxes or property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on the varying dates related to the tax billing date.

Legislation enacted in 1984 (Section 25 et seq. of the California Revenue and Taxation Code), provides for the supplemental assignment and taxation of property as of the occurrence of a change in ownership or completion of new construction. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessment for up to 14 months. Collection of taxes based on supplemental assessments occurs throughout the year. Taxes due are prorated according to the amount of time remaining in the tax year, with the exception of tax bills dated January 1 through May 31, which are calculated on the basis of the remainder of the current Fiscal Year and the full 12 months of the next Fiscal Year.

For a number of years, the State Legislature has shifted property taxes from cities, counties and special districts to the Educational Revenue Augmentation Fund (“ERAF”). In Fiscal Years 1993 and 1994, in response to serious budgetary shortfalls, the State Legislature and administration permanently redirected over \$3 billion of property taxes from cities, counties, and special districts to schools and community college districts pursuant to ERAF shifts. The City last paid ERAF in 1995 and 1996, but was not required to pay any ERAF in later years when it has been imposed on other agencies.

On November 2, 2004, State voters approved Proposition 1A, which amended the State Constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State may not: (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes; (ii) shift property taxes from local governments to schools or community colleges; (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the

State Legislature; or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. See, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Voter Initiatives." Beginning in Fiscal Year 2009, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Sales and Use Tax. The sales tax is an excise tax imposed on retailers for the privilege of selling or leasing tangible personal property. The use tax is an excise tax imposed for the storage, use, or other consumption of tangible personal property purchased from any retailer. The total sales tax rate within the City is currently 8.00%.

The California State Board of Equalization administers collection of the sales and use tax. Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter. The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

Factors that have historically affected sales tax revenues include the overall economic growth of the San Diego County Area, competition from neighboring cities, the growth of specific industries within the City, the City's business attraction and retention efforts, and catalog and Internet sales.

Other Taxes and Fees

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

Transient Occupancy Taxes. The City levies a 10%, voter-approved transient occupancy tax on hotel and motel bills, and short-term residential vacation rentals.

Property Transfer Taxes. A documentary stamp tax is assessed by the County and remitted to the City for recordation of real property transfers.

Documentary Transfer Tax. The County imposes a \$1.10 per \$1,000 of value of any documented sale or transfer of real property within the City. The tax is due when the transfer is recorded with the County. Title companies collect the tax as part of the sale closing process and remit the funds to the County when sales or transfers are finalized. The County remits the amounts due monthly, and the amounts are credited to the general fund.

City Investment Policy

The City may invest public funds until such time as the funds are needed to pay the obligations of the City. The City maintains an Investment Policy which sets forth guidelines of the City Treasurer's investment of such funds. The Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standards, and the primary objective shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet liquidity needs, and the third objective shall be to achieve a market rate of return.

The City matches its investments with anticipated cash flow requirements. Pursuant to the California Government Code, maximum maturities shall not exceed five (5) years, without specific approval of the City Council. The City’s investment policy limits the investment of the City’s funds by specifying term, diversification and credit quality. The requirements of the City’s policy regarding these investments are either the same as or more restrictive than the requirements of State law. The City has elected not to permit other types of investments which are permitted by State law.

The City’s investment portfolio had a market value as of September 30, 2016 of approximately \$90 million. The following table presents a breakdown of the City’s investment portfolio by type of security as of that date.

<u>Investments</u>	<u>Market Value</u>	<u>% of Portfolio</u>
Local Agency Investment Funds	\$13,524,997.82	15.09%
Managed Pool Accounts	1,004,898.86	1.12
Money Market Funds	14,213.59	0.02
Certificates of Deposit – Bank	4,002,658.00	4.43
U.S. Treasury Coupon Securities	22,148,993.91	24.60
Federal Agency Coupon Securities	46,400,270.00	51.50
Federal Agency Callable Securities	<u>2,901,972.00</u>	<u>3.24</u>
TOTALS	\$89,998,004.18	100.00%

Source: City Finance Department.

As of September 30, 2016, the average days to maturity of the City’s investment portfolio was 557 days. Cash on deposit for the City equals \$1,427,280.04.

Risk Management

The City is self-insured for liability claims and losses up to \$500,000 per occurrence, and is covered for covered losses between \$125,000 and \$2,500,000 by the San Diego Pooled Insurance Program Authority (“SANDPIPA”) reserve pool. The members share the risk of claims in excess of reserves. Excess liability insurance coverage is provided for losses between \$2,500,000 and \$47,000,000 via third-party insurers, and losses in excess of \$47,000,000 are not covered and are the responsibility of the City. The City is self-insured for workers compensation claims and losses up to \$500,000 per occurrence. The City is covered for claims between \$500,000 and \$2,500,000 as a member of the California Joint Powers Insurance Authority LACWX. CSAC, EIA also provides excess workers compensation and commercial coverage between \$2,500,000 and \$47,000,000 through reinsurance arrangements. The City has stated that settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The claims liability of \$1,589,220 (for both workers compensation and liability) as of June 30, 2016 is based on the requirements of GASB Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Retirement Program

The City has entered into a total of three (3) separate defined benefit pension plans covering miscellaneous and safety employees. As of June 30, 2016, the City Fire Safety Plan and the City Lifeguard Plan were placed into cost sharing pools. The City’s Miscellaneous plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plans are part of the Public Agency portion of the California Public Employees Retirement System (“PERS”), a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other

requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. PERS issues a separate comprehensive annual financial report. Copies of the PERS annual financial report may be obtained from the PERS Executive Office, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

The three City plans are as follows:

- (1) The Miscellaneous Plan of the City of Encinitas (Miscellaneous Plan)
- (2) The Safety Fire Department Plan of the City of Encinitas (Fire Plan)
- (3) The Safety Lifeguard Plan of the City of Encinitas (Lifeguard Plan)

The City's Miscellaneous Plan is an agent multiple-employer Plan that is part of the Public Agency's portion of PERS. The Fire and Lifeguard Plans are cost-sharing multiple employer defined benefit plans in which the City participates with other public agencies that each have less than 100 active members and share the same benefit formula.

The Miscellaneous Plan provides employees hired before October 13, 2012 with a Tier 1 benefit equal to 2.7% @ 55 years of age, calculated based on the single highest year of qualifying compensation. As of October 13, 2012, the City Council imposed new terms and conditions on the miscellaneous employees which created a new benefit formula for employees hired after the effective date of the change (the "Tier 2 miscellaneous plan"). Employees hired under the Tier 2 miscellaneous plan receive a lower benefit formula, referred to as the 2% at 60 formula. In addition, legislation enacted by the State of California applying to all local units of government, referred to as the Public Employees' Pension Reform Act (PEPRA) which became effective on January 1, 2013, created yet another benefit formula for new hires with no experience or prior service credit with PERS. In the case of the City, this will constitute a "Tier 3 miscellaneous plan" which provides a retirement benefit, referred to as the 2% @ 62 formula. The actual retirement benefit for Tier 2 and Tier 3 miscellaneous employees will be calculated using the average of the highest 36 consecutive months of qualifying compensation.

The Safety Fire Department Plan provides employees hired before June 23, 2012 with a Tier 1 benefit equal to 3.0% @ 55 years of age, calculated based on the single highest year of qualifying compensation. Effective June 23, 2012, the Encinitas Firefighters Association executed a new four year Memorandum of Understanding (MOU) with the City that provides for modifications to the pension benefit formula for employees hired on or after the effective date (the "Tier 2 fire safety plan"). The 3.0% @ 55 formula is maintained, but the actual retirement benefit will be calculated using the average of the highest 36 consecutive months of qualifying compensation. In addition, the PEPRA legislation, created yet another benefit formula for new hires with no experience or prior service credit with PERS. In the case of the City, this will constitute a "Tier 3 fire safety plan" which provides a retirement benefit, referred to as the 2.7% @ 57 formula. This plan also utilizes the mandated method of calculation based on the average of the highest 36 consecutive months of qualifying compensation.

The Safety Lifeguard Plan provides employees hired before October 13, 2012 with a Tier 1 benefit equal to 3.0% @ 55 years of age, calculated based on the single highest year of qualifying compensation. The lifeguards have Tier II and Tier III plans which are identical to the Fire Safety Plan described above.

Funding Policy:

Employee Contributions:

Active Tier 1 miscellaneous members are required to contribute 8% of their annual covered salary (the "employee contribution"). Effective October 13, 2012, all Tier 1 miscellaneous members contribute the full 8%, which is credited to their individual accounts. Members receiving the Tier 2 or Tier 3 benefits are required to

contribute 7% of their annual covered salary. Safety lifeguard members are also now required to contribute the full 9% of their annual covered salary as their employee contribution. Fire safety members are now required to contribute the full required 9%. The employee contribution requirements are established by State statute.

Employer Contributions:

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the “employer contributions”). The employer contribution rate for fiscal year 2015-2016 was 20.676% for miscellaneous members. With respect to miscellaneous members, the rates are blended to cover Tiers I, II, and III. The employer contribution rates are calculated and established annually by PERS, based on the actuarial methods and assumptions as adopted by the PERS Board of Administration.

Annual Pension Costs:

The annual pension cost (APC), which is equivalent to the actual annual required employer contributions made to PERS, is based on the actuarially determined rates in effect for that fiscal year. These amounts do not include any payments made by the City on behalf of the employees for employee contributions.

A summary of the annual pension costs and the percentage of the required APC contributed for the last three fiscal years is presented below:

<u>Year Ended</u>	<u>Miscellaneous Plan</u>		<u>Fire Plan</u>		<u>Lifeguard Plan</u>	
	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>
June 30, 2013	\$2,247,251	100%	\$1,035,753	100%	\$81,503	100%
June 30, 2014	2,246,342	100	1,288,248	100	82,599	100
June 30, 2015	1,990,894	100	1,162,642	100	50,298	100

The following table summarizes the City’s Miscellaneous Plan’s funding status for the most recent actuarial valuation (latest available data):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>FY 2016/17 Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
June 30, 2015	\$68,349,638	\$89,654,045	\$21,304,407	76.2%	\$13,740,704	155.05%

The actuarial assumptions in the June 30, 2013 actuarial valuation for the City's Miscellaneous Plan, which was used to determine the fiscal year 2016 annual required contribution, included (1) 7.50% investment rate of return (net of administrative expenses), which was changed to 7.65% as of June 30, 2015, (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20, and (c) a 3% growth in payroll. Both (a) and (b) included an inflation component of 2.75%.

The actuarial assumptions in the June 30, 2014 actuarial valuation for the City's Miscellaneous Plan included (1) 7.50% investment rate of return (net of administrative expenses), which was changed to 7.65% as of June 30, 2015, (b) projected salary increases that vary by duration of service ranging from 3.30% to 14.20%, and (c) a 3% growth in payroll. Both (a) and (b) included an inflation component of 2.75%.

The actuarial value of the Miscellaneous Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS' unfunded actuarial accrued liabilities (or excess assets) are being amortized as a level percentage of projected payroll on a closed basis, depending on the size of investment gains and/or losses.

As of June 30, 2016, the unfunded actuarial accrued liability of the City is approximately \$9.1 million.

Post-Retirement Health Benefits

The City provides postretirement health care benefits through the PERS healthcare program (PEMHCA) to eligible employees who retire directly from the City. The City pays the cost for lifetime retiree and dependent medical benefits (average premium for PERS health plans available in San Diego County) for fire department employees hired before March 16, 1995. Other City retirees receive the PEMHCA minimum benefit, as determined by PERS. The City does not provide a retiree contribution for dental, vision, or life insurance benefits. The City’s OPEB plan does not issue a separate stand-alone report.

The City has elected to join the California Employers’ Retiree Benefit Trust (the “Trust”) in accordance with GASB Statement No. 45, which provides a means to fund the annual OPEB costs, referred to as the Annual Required Contribution (ARC). The City makes an annual contribution to the Trust, pays benefits either directly to retirees or through PEMHCA during the year, and then seeks reimbursement for these “pay-as-you-go expenses” from the Trust.

The actual contributions of the City to the Trust were established by City Council action. The contribution requirements are established via an actuarial valuation of the City’s Retiree Healthcare Plan as of June 30, 2013, performed in conformance with the requirements of GASB Statement No. 45. The required contribution is measured on an accrual basis rather than on a pay-as-you-go basis. The actuarial cost method used to determine the benefit obligations is the entry-age cost method. The valuation is determined using a discount rate of 7.61%, which is the discount rate established for the Trust by PERS. Other key assumptions include: (1) health care cost trend rate of 5.0% to 7.5% depending on type of plan and (2) an average retirement age of 60. The unfunded actuarial accrued liability is being amortized over a closed thirty-year period.

The Annual Required Contribution (“ARC”) for fiscal year 2015/16 of \$560,000 represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a maximum of 30 years. The City contributed its ARC of \$560,000 to the Trust, and received reimbursement for actual pay-as-you-expenses incurred during the year. The ARC for 2016/17 is \$930,500.

The City’s annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of and for the year ended June 30, 2016 and the preceding two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	\$785,000	100%	-
6/30/15	544,000	100	-
6/30/16	560,000	100	-

Outstanding Lease Debt

The City has executed a number of capital lease and other obligations payable from the City General Fund (see APPENDIX B hereto). See “DEBT SERVICE SCHEDULE” above for the annual debt service requirements of the Bonds. The following table shows the City’s debt service requirements to maturity for prior certificates of participation and capital lease obligations payable from the City General Fund. The table below does not include the expected payments for the Bonds.

**TABLE A-7
CITY OF ENCINITAS
CURRENT OUTSTANDING PRINCIPAL REQUIREMENTS TO MATURITY
(GENERAL FUND)**

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016⁽⁴⁾</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
Capital Leases:						
2008 Civic Center Roof Replacement	\$1,261,575	\$ -	\$ (138,268)	\$ 1,123,307	\$ 143,417	\$ 979,890
2011 Fire Apparatus	498,147	-	(161,975)	336,172	166,015	170,157
2012 Fire Apparatus	353,750	-	(85,582)	268,168	87,458	180,710
2013 Fire Apparatus	400,242	-	(77,049)	323,193	78,520	244,673
Bonded Debt:						
1997 Civic Center COP's ⁽²⁾	1,150,000	-	(560,000)	590,000	590,000	-
2002 ABAG Financing ⁽³⁾	830,000	-	(265,000)	565,000	275,000	290,000
2006 Public Library Bonds	16,975,000	-	(16,975,000)	-	-	-
less: original issue discount	(220,000)	-	220,000	-	-	-
2010 Community Park Bonds ⁽¹⁾	16,000,000	-	(735,000)	15,265,000	770,000	14,495,000
add: original issue premium	163,433	-	(10,777)	152,656	-	152,656
2013 Community Park Bonds	7,245,000	-	(325,000)	6,920,000	330,000	6,590,000
add: original issue premium	113,880	-	(8,760)	105,120	-	105,120
2014 Moonlight Beach Tower (Series A)	3,095,000	-	(65,000)	3,030,000	65,000	2,965,000
less: original issue discount	(55,141)	-	1,838	(53,303)	-	(53,303)
2014 Pacific View (Series B)	10,365,000	-	(200,000)	10,165,000	200,000	9,965,000
less: original issue discount	(230,486)	-	7,683	(222,803)	-	(222,803)
2015 Library Refunding Bonds	-	15,645,000	-	15,645,000	480,000	15,165,000
add: original issue premium	-	<u>772,212</u>	-	<u>772,212</u>	-	<u>772,212</u>
Total	<u>\$57,945,400</u>	<u>\$16,417,212</u>	<u>\$(19,377,890)</u>	<u>\$54,984,722</u>	<u>\$3,185,410</u>	<u>\$51,799,312</u>

⁽¹⁾ Bonds are refunding 2010 Community Park Bonds.

⁽²⁾ Matures in 2017.

⁽³⁾ Matures in 2018.

⁽⁴⁾ In November 2014, the City entered additional general fund obligations with a par value of \$13,460,000 with a maximum annual lease payment of \$832,688.

Source: City of Encinitas 2015/16 Audited Financial Statements.

City Financial Data

The following tables provide a five-year history of the City's Comparative Balance Sheets, and summarize General Fund revenues, expenditures, transfers, and ending fund balances for the City for Fiscal Years 2010/11 through 2015/16. See also "Budgetary Process and Current Budget" above for estimated revenues and expenses for the current Fiscal Year.

TABLE A-8
CITY OF ENCINITAS
GENERAL FUND COMPARATIVE BALANCE SHEET
(As of June 30)

	<u>2010/11</u>	<u>2011/12⁽¹⁾</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Assets:						
Cash and investments	\$ 43,967,292	\$ 38,401,869	\$ 32,529,851	\$ 35,529,453	\$40,016,477	\$27,578,888
Receivables	3,097,889	2,703,356	2,671,298	2,983,757	3,004,496	5,866,695
Due from other funds	1,910,749	994,310	992,653	801,707	434,357	2,516,638
Inventory and prepaid items	-	-	-	-	220,562	227,781
Other assets	2,026,537	2,218,533	1,345,062	997,556	665,037	332,518
Long-term receivable	-	650,000	650,000	650,000	650,000	520,000
Sales tax receivable	650,000	-	-	-	-	-
Cash and investments with fiscal agent	<u>633,245</u>	<u>-</u>	<u>8,020,468</u>	<u>-</u>	<u>3,009,269</u>	<u>3,007,966</u>
Total Assets	<u>\$52,285,712</u>	<u>\$44,968,068</u>	<u>\$46,209,332</u>	<u>\$41,371,246</u>	<u>\$48,000,198</u>	<u>\$40,050,486</u>
Liabilities and Fund Equity:						
Liabilities:						
Accounts payable & accrued liabilities	\$ 2,664,356	\$ 3,414,452	\$ 3,060,496	\$ 3,762,589	\$ 3,964,444	\$ 3,159,413
Interest payable	-	-	-	-	-	-
Unearned revenue	-	-	-	-	45,210	596,323
Deferred revenue	346,932	-	-	-	-	-
Due to other governments	627,986	-	-	-	-	-
Deposits and other liabilities	<u>1,239,946</u>	<u>1,348,524</u>	<u>1,602,058</u>	<u>1,702,549</u>	<u>2,588,099</u>	<u>3,410,206</u>
Total Liabilities	<u>\$ 4,879,220</u>	<u>\$ 4,762,976</u>	<u>\$ 4,662,554</u>	<u>\$ 5,465,138</u>	<u>\$ 6,597,753</u>	<u>\$ 7,165,942</u>
Fund Equity:						
Reserved	\$ 3,281,583	\$ 2,868,533	\$ 1,980,075	\$ 1,647,556	\$ 1,535,599	\$ 1,109,424
Unreserved	-	-	-	-	8,266,796	-
Designated	42,274,327	19,371,624	18,405,881	8,698,648	561,762	-
Undesignated	<u>1,850,000</u>	<u>17,964,935</u>	<u>21,160,822</u>	<u>25,559,904</u>	<u>31,038,288</u>	<u>31,775,120</u>
Total Fund Equity	<u>\$47,406,492</u>	<u>\$40,205,092</u>	<u>\$41,546,778</u>	<u>\$35,906,108</u>	<u>41,402,445</u>	<u>\$32,884,544</u>
Total Liabilities and Fund Equity	<u>\$52,285,712</u>	<u>\$44,968,068</u>	<u>\$46,209,332</u>	<u>\$41,371,246</u>	<u>\$48,000,198</u>	<u>\$40,050,486</u>

⁽¹⁾ Reclassification of Self Insurance from General Fund to an internal service fund of \$3,384,000. General Fund balance of approximately \$3.8 million transferred out for construction of public capital project, and reclassification of funds due to GASB 54. For years after Fiscal Year 2011, undesignated funds include all funds not previously committed or appropriated.

Source: City Audited Financial Statements.

TABLE A-9
CITY OF ENCINITAS
STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND BALANCES
(Fiscal Year Ending June 30)

	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Revenues:					
Taxes and assessments	\$ 46,677,085	\$ 49,140,365	\$ 51,166,669	\$54,049,677	\$ 58,479,429
Licenses and permits	207,993	219,288	289,116	251,730	232,227
Intergovernmental	522,931	522,865	479,026	814,337	801,966
Charges for service	4,406,737	4,450,756	5,479,847	5,315,721	6,585,518
Fines, forfeitures and penalties	657,364	611,029	632,776	802,936	889,388
Use of money and property	523,630	452,386	457,135	609,054	972,663
Other	<u>979,120</u>	<u>1,022,653</u>	<u>713,818</u>	<u>686,774</u>	<u>779,892</u>
Total Revenues	\$ 53,974,860	\$ 56,419,342	\$ 59,218,387	\$62,530,229	\$ 68,741,083
Expenditures:					
Current:					
General government	\$ 9,233,423	\$ 9,364,941	\$ 8,974,262	\$ 9,202,951	\$ 9,096,174
Public safety	22,739,268	23,543,342	24,047,241	24,786,218	26,775,120
Public works	3,483,137	3,597,216	3,705,397	4,034,654	3,970,924
Planning and building	3,873,138	3,825,996	4,294,095	4,793,533	4,896,957
Engineering services	3,804,813	3,716,994	3,949,352	4,162,630	4,078,841
Parks and recreation	4,228,808	4,260,368	4,543,452	4,954,898	6,112,079
Capital Outlay	599,639	559,653	-	-	-
Debt Service:					
Bond issuance costs	-	243,987	-	155,804	-
Total Expenditures	\$ 47,962,226	\$ 49,112,497	\$ 49,513,799	\$52,090,688	\$ 54,930,095
Excess (Deficiency) of Rev. Over Exp.	\$ 6,012,634	\$ 7,306,845	\$ 9,704,588	\$10,439,541	\$ 13,810,988
Other Financial Sources (Uses):					
Issuance of debt ⁽²⁾	\$ 599,639	\$ 8,420,384	-	\$13,174,373	-
Premium on debt	-	131,400	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	-
Transfers In ⁽³⁾	1,061,378	1,121,181	1,295,818	1,295,358	1,519,174
Transfers Out ⁽⁴⁾	<u>(11,490,139)</u>	<u>(15,638,124)</u>	<u>(16,641,076)</u>	<u>(19,412,935)</u>	<u>(23,848,063)</u>
Total Other Financing Sources (Uses)	\$(9,829,122)	\$ (5,965,159)	\$(15,345,258)	\$(4,943,204)	\$(22,328,889)
Net Change in Fund Balances	(3,816,488)	1,341,686	(5,640,670)	5,496,337	(8,517,901)
Fund Balances, Beginning	<u>\$ 47,406,492</u>	<u>\$ 40,205,092</u>	<u>\$ 41,546,778</u>	<u>\$ 35,906,108</u>	<u>\$ 41,402,445</u>
Restatement – fund reclassification ⁽¹⁾	<u>(3,384,912)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances – beginning of year, as restated	<u>44,021,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances, Ending	<u>\$ 40,205,092</u>	<u>\$ 41,546,778</u>	<u>\$ 35,906,108</u>	<u>\$41,402,445</u>	<u>\$ 32,884,544</u>

⁽¹⁾ Reclassification of \$3,384,912 set aside for Self Insurance from General Fund to an internal service fund.

⁽²⁾ Includes capital lease financing.

⁽³⁾ Includes operating, capital and debt services transfers in.

⁽⁴⁾ Includes operating, capital and debt service transfer out.

Source: City Audited Financial Statements.

Direct and Overlapping Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding obligations issued in the form of general obligation, lease, revenue and special assessment bonds. The following is a listing of direct and overlapping bonded debt on property in the City together with lease obligation debt of agencies in the area, as of June 30, 2016.

**TABLE A-10
DIRECT AND OVERLAPPING DEBT
CITY OF ENCINITAS**

2016-17 Assessed Valuation: \$14,473,964,302

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/17</u>
Metropolitan Water District	0.560%	\$ 520,044
Cardiff School District	100.000	3,505,198
Encinitas Union School District	67.287	28,772,638
San Dieguito Union High School District	24.617	77,851,263
San Dieguito Union High School District Community Facilities District	1.657-100.000	10,737,718
City of Encinitas Community Facilities District No. 1	100.000	26,925,000
Olivenhain Municipal Water District, Assessment District No. 96-1	31.075	<u>3,628,006</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$151,939,867
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	3.098%	\$ 9,060,256
San Diego County Pension Obligation	3.098	18,759,010
San Diego County Superintendent of Schools Obligations	3.098	406,922
Mira Costa Community College District Certificates of Participation	15.106	143,507
San Dieguito Union High School District General Fund Obligations	24.617	3,133,744
City of Encinitas Governmental Bonded Debt	100.000	<u>50,240,000</u>⁽¹⁾
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 81,743,439
 COMBINED TOTAL DEBT		 \$233,683,306⁽²⁾

Ratios to 2015-16 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.05%
Total Direct Debt (\$50,240,000):0.35%
 Combined Total Debt: 1.61%

⁽¹⁾ Excludes the Bonds.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Assessed Valuations

As discussed under “Property Taxes” above, the City receives a share of ad valorem taxes levied on real property within its boundaries. The basic levy is equal to 1% of the assessed value of secured and unsecured property. The City receives approximately 26% of the basic levy. The following table shows the assessed valuation of the City from Fiscal Year 1998/99 through Fiscal Year 2016/17.

**TABLE A-11
CITY OF ENCINITAS
SCHEDULE OF ASSESSED PROPERTY
(As of June 30)**

<u>Year</u>	<u>Secured</u>	<u>Utility⁽¹⁾</u>	<u>Unsecured</u>	<u>Total</u>
1999	\$ 4,598,429,761	\$3,248,989	\$107,869,719	\$ 4,709,548,469
2000	5,029,321,477	3,539,663	120,050,833	5,152,911,973
2001	5,555,651,747	3,615,230	124,132,927	5,683,399,904
2002	6,094,943,187	3,687,679	121,710,903	6,220,341,769
2003	6,671,155,770	3,321,931	122,276,356	6,796,754,057
2004	7,380,752,536	2,870,543	129,666,206	7,513,289,285
2005	8,166,719,411	2,732,083	130,170,382	8,299,621,876
2006	9,012,953,568	2,785,704	137,229,829	9,152,959,101
2007	9,874,321,949	2,609,179	142,971,280	10,019,902,408
2008	10,539,452,529	-	149,460,274	10,688,912,803
2009	11,097,895,097	-	160,815,739	11,258,710,836
2010	11,175,029,435	-	163,857,938	11,338,887,373
2011	11,186,889,197	-	157,142,326	11,344,031,523
2012	11,388,978,126	-	138,583,972	11,527,562,098
2013	11,581,761,879	-	143,523,614	11,725,285,493
2014	11,997,858,077	-	151,308,388	12,149,166,465
2015	12,715,936,309	-	155,935,794	12,871,872,103
2016	13,553,813,809	-	150,782,981	13,704,596,790
2017	14,326,676,416	-	147,287,886	14,473,964,302

⁽¹⁾ Change in 2008 reflects legislative alteration of how certain rail property, including property owned by North San Diego County Transit Development Authority, is allocated between the agency where such property is located and other taxing entities in the surrounding jurisdictions.

Source: California Municipal Statistics, Inc. and San Diego County Auditor-Controller.

Set forth in Table A-12 are property tax collections and delinquencies in the City as of June 30 for Fiscal Years 2007 through 2016. The County of San Diego (the “County”) operates under a statutory program entitled the Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the County. The City elected not to enroll in the Teeter Plan; accordingly, the City’s receipt of its property tax revenues is impacted by delinquencies in payment, as well as by the collection of interest and penalties on past delinquencies.

**TABLE A-12
CITY OF ENCINITAS
PROPERTY TAX LEVIES AND COLLECTIONS
(As of June 30, 2016)**

Fiscal Year Ended <u>June 30</u>	Taxes Levied for the <u>Fiscal Year</u>⁽¹⁾	<u>Amount Collected</u>	<u>Percent of Levy Collected</u>
2007	\$25,857,065	\$24,741,077	95.68%
2008	26,950,803	25,584,630	94.93
2009	27,441,558	26,326,996	95.94
2010	27,421,386	26,490,783	96.61
2011	27,541,487	26,888,921	97.63
2012	28,100,611	27,540,858	98.01
2013	29,207,237	28,712,036	98.30
2014	30,550,301	30,009,574	98.23
2015	32,251,814	31,755,994	98.46
2016	34,443,972	33,941,624	98.54

⁽¹⁾ City of Encinitas general fund.

Source: San Diego County Assessor Combined Tax Rolls.

Largest Taxpayers

A list of the principal property taxpayers in the City is set forth below:

**TABLE A-13
CITY OF ENCINITAS
PRINCIPAL SECURED PROPERTY TAXPAYERS⁽¹⁾
(Fiscal Year 2016/17)**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2016-17 Assessed Valuation</u>	<u>Percent of Total⁽¹⁾</u>
1.	TRC Encinitas Village LLC	Shopping Center	\$ 82,893,554	0.58%
2.	Collwood Pines Apartments LP	Apartments	77,155,677	0.54
3.	Belmont Village Tenant 2 LLC 3535	Convalescent Home	57,152,956	0.40
4.	Encinitas Town Center Associates I LLC	Shopping Center	37,265,074	0.26
5.	NCHC 3 LLC	Professional Building	35,278,609	0.25
6.	PK III Encinitas Marketplace LP	Shopping Center	35,100,000	0.24
7.	Shea Homes LP	Residential Development	35,070,664	0.24
8.	Weingarten Nostat Inc.	Shopping Center	34,608,013	0.24
9.	ASN Encinitas LLC	Apartments	28,648,098	0.20
10.	Keith B. and Sara S. Harrison	Hotel	25,966,368	0.18
11.	SSL Landlord LLC	Convalescent Home	24,892,013	0.17
12.	Urschel Holdings LP	Apartments	24,289,441	0.17
13.	Vons Companies Inc.	Shopping Center	23,578,557	0.16
14.	Loja Pacific Station LLC	Commercial	20,798,678	0.15
15.	Quail Pointe Apartments LP	Apartments	20,210,329	0.14
16.	UCSD Garden View LLC	Professional Building	19,098,730	0.13
17.	Sterling Family Trust	Apartments	18,649,210	0.13
18.	LA Fitness International LLC	Fitness Club	18,427,845	0.13
19.	Plenc El Camino LLC	Shopping Center	18,339,169	0.13
20.	Home Depot USA Inc.	Commercial	<u>17,228,488</u>	<u>0.12</u>
			<u>\$654,651,473</u>	<u>4.57%</u>

⁽¹⁾ 2016-17 Local Secured Assessed Valuation: \$14,326,676,416.

Source: California Municipal Statistics, Inc.

Retail and Total Taxable Sales

The following table presents the retail taxable transactions of the City of Encinitas for the calendar years 2010 through 2016.

**TABLE A-14
CITY OF ENCINITAS
TAXABLE RETAIL SALES
(\$ in thousands)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Autos and Transportation	\$1,189,413	\$1,330,270	\$ 1,427,132	\$ 1,446,737	\$ 1,519,008	\$ 1,638,839	\$ 1,684,618
Building and Construction	818,484	774,109	868,790	820,467	887,182	944,334	980,140
Business and Industry	461,247	537,840	518,699	560,723	573,032	556,835	738,490
Food and Drugs	931,937	945,542	995,511	1,003,491	1,001,942	1,028,085	1,005,870
Fuel and Service Stations	1,146,372	1,351,288	1,569,265	1,577,783	1,559,342	1,500,416	1,382,946
General Consumer Goods	2,836,989	2,818,809	3,117,547	3,165,746	3,355,540	3,476,481	3,535,734
Restaurants and Hotels	<u>1,388,570</u>	<u>1,442,976</u>	<u>1,624,007</u>	<u>1,699,705</u>	<u>1,825,971</u>	<u>1,978,072</u>	<u>2,113,116</u>
Total	\$8,773,012	\$9,200,834	\$10,120,951	\$10,274,652	\$10,722,015	\$11,123,062	\$11,440,916

Source: City Audited Financial Statements.

Building Activity

The following table summarizes the number of residential building permits issued in the City from Fiscal Year 2006/07 through 2015/16.

TABLE A-15
CITY OF ENCINITAS
NEW BUILDING PERMITS
(As of June 30)

<u>Fiscal Year</u> <u>(June 30)</u>	<u>Single Family</u> <u>Residential Permits</u>
2007	107
2008	98
2009	86
2010	39
2011	51
2012	121
2013	63
2014	161
2015	135
2016	117

Source: City of Encinitas.

Income Levels

The City of Encinitas is primarily a bedroom community with primary employment in nearby cities. Encinitas median household income is \$95,149, which is 154% of the National average of \$56,516 and 37% higher than the State of California average of \$63,636.

APPENDIX B

**CITY'S AUDITED FINANCIAL
STATEMENTS FOR FISCAL YEAR 2015/16**

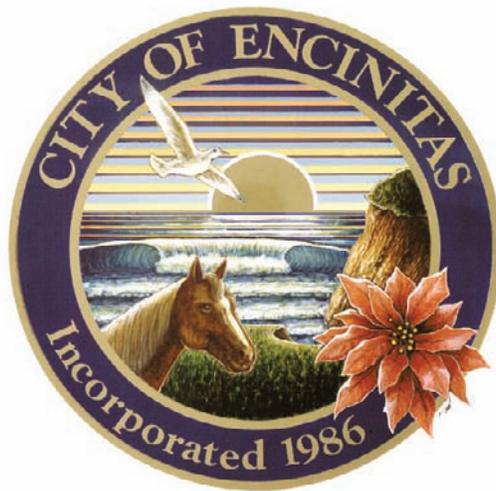
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City of Encinitas

Encinitas, California

Comprehensive Annual Financial Report and Independent Auditors' Reports

For the Year Ended June 30, 2016



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City of Encinitas
Comprehensive Annual Financial Report
For the Year Ended June 30, 2016

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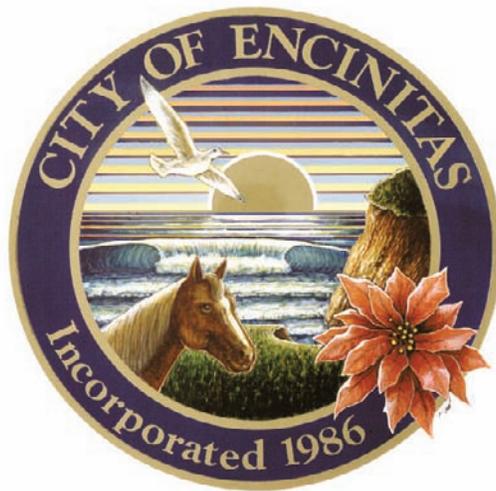
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TRANSMITTAL LETTER • INTRODUCTORY SECTION



December 7, 2016

Honorable Mayor, City Council and Citizens of the City of Encinitas, California,

We are pleased to present the fiscal year 2015-16 *Comprehensive Annual Financial Report* (CAFR) for the City of Encinitas and its related entities. This report was prepared by the City's Finance Department to assist those interested in understanding the financial condition and results of operations of the City for the fiscal year ended June 30, 2016 and includes financial information for the City of Encinitas, the San Dieguito Water District, the Encinitas Housing Authority, and the Encinitas Public Financing Authority. These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. Responsibility for the accuracy of the data, the completeness and reliability of the presentation, including all disclosures, rests with City management.

To provide a reasonable basis for making the presentations shown in this report and to compile sufficient reliable information for the preparation of the City's financial statements, the management of the City has established a comprehensive internal control framework designed to protect the City's assets from loss, theft, or misuse. Because the cost of internal controls should not exceed their benefits, the City's internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

The City's financial statements have been audited by the Pun Group, certified public accountants. The independent auditor concluded based on the audit, that there was reasonable basis for rendering an unmodified opinion (or a "clean audit") on the City's financial statements for the fiscal year ended June 30, 2016, which means in the auditors opinion, the financial statements accurately present the City's financial position.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditors report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

CITY PROFILE AND BACKGROUND

The City of Encinitas was incorporated in October 1986 as a general law city, bringing together the communities of New and Old Encinitas, Cardiff-by-the-Sea, Leucadia, and Olivenhain. Encinitas is located in northern San Diego County approximately 25 miles north of downtown San Diego on the Southern California coast. The City with an estimated population of 61,000 covers approximately 21 square miles and is predominately residential with two major commercial corridors.

TRANSMITTAL LETTER • INTRODUCTORY SECTION

GOVERNANCE

The City is governed by a City Council consisting of a Mayor and four Council members under the Council-Manager form of government. The Council members are elected at large, on staggered four-year terms while the Mayor is elected at large every two years. The City Council appoints the City Manager and City Attorney. All other staff positions are appointed by the City Manager or her designee. The City Council acts as the Board of Directors for the San Dieguito Water District, the Encinitas Housing Authority, and the Encinitas Public Financing Authority.

MUNICIPAL SERVICES

The City provides a full range of municipal services such as:

Fire and paramedic services	Law enforcement (contract)
Marine safety	Parks and trails
Planning and development services	Recreation services
Street maintenance and construction	Traffic control
Wastewater services	Water services

CITY FACILITIES

City Hall is located on Vulcan Avenue between D and E Streets, adjacent to the Encinitas Train Station and downtown. The City maintains an active Community and Senior Center located at Encinitas Boulevard and Balour Drive, the 44-acre Encinitas Community Park located at 425 Santa Fe Drive along with 20 other park sites and Moonlight Beach located at 400 B Street which attracts an estimated 3 million visitors annually. There are six fire stations located throughout the city, as well as one sheriff substation which is owned and operated by the County of San Diego. The corporate yard for both the City of Encinitas and San Dieguito Water District is located near Encinitas Boulevard and Calle Magdalena.

BUDGETING OVERVIEW

The City develops and adopts both an operating and a capital budget on a two-year budget cycle. Amounts are appropriated for the first year only, with the amounts for the second year subject to revision before appropriation. Any changes to the operating or capital budgets must be approved by the City Council. The City also publishes a six-year capital improvement/work project program and financial plan which is updated as part of the two-year budget cycle. This document provides management and the City Council with long-term financial planning information and tools. Online access to detailed City financial information is available on the City's website. This web-based tool allows the user to sort and filter City financial information in order to obtain the specific financial information desired. This tool may be found by selecting the "Open Finance" page on the City's website <https://encinitasca.opengov.com/transparency>.

FACTORS AFFECTING FINANCIAL CONDITION OF THE CITY

Local Economy – Encinitas enjoys a strong and well diversified tax base. Over the years, the property values and personal income levels within the City have generated tax revenues sufficient to support the level of municipal services and facilities for the community to enjoy. The tax base

TRANSMITTAL LETTER • INTRODUCTORY SECTION

has performed well in good economic times and it has also been able to weather the financial impacts during slower economic times. The net taxable assessed value of property in the City has grown 50% since Fiscal Year 2005-06 (ten years ago). Throughout the recession the City maintained slight increases each year in net taxable assessed value. For Fiscal Years 2014-15 and 2015-16 taxable values increased 5.9% and 6.4% respectively.

Employment in Encinitas is strong with the unemployment rate just 4.1% as of July 2016. The unemployment rate for all of San Diego County was 5.3% while statewide the rate was 5.9%. Encinitas also has over 3,300 businesses reporting retail sales within the City. The top 100 sales tax producers include a wide variety of businesses such as car dealers, home improvement stores, big box retail, gas stations, grocery stores and restaurants.

Property and Sales Tax Revenue - Property tax and sales tax revenue represent approximately 80% of the City's total General fund revenue. Property tax revenue in FY 2015-16 totaled \$39.7 million which was an increase of \$2.6 million or 7% over FY 2014-15. Sales tax revenue in FY 2015-16 was \$14.2 million, an increase of \$1.6 million or 12.7% over FY 2014-15 revenue of \$12.6 million. FY 2015-16 sales tax revenue included a one-time "true up" payment of \$1.6 million which marked the end of the property tax in lieu of sales tax program in California that was commonly known as the "Triple Flip". Other revenue sources remained relatively stable, although revenues from the State of California are still considered to be vulnerable to State actions.

Financial Strength and Sustainability - The City of Encinitas is well positioned to weather economic fluctuations and has been evaluated and rated by internationally recognized third party reviewers. On August 28, 2015, Standard & Poor's Rating Services (S&P) affirmed its 'AAA' issuer credit rating (ICR) for the City of Encinitas. As stated in S&P's rating rationale, the 'AAA' ICR reflects the City's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 52% of operating expenditures;
- Very strong liquidity, with total government available cash of 1.5x total governmental fund expenditures and 21.0x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 7.2% of expenditures and net direct debt that is 78.3% of total governmental fund revenue and low overall net debt at less than 3% of market value; and
- Adequate institutional framework score.

The City had approximately \$54.2 million of general fund bonded debt and capital leases outstanding at June 30, 2016, with scheduled payments of principal and interest of \$4.8 million in FY 2015-16. This translates to a debt ratio of 7.0%, which is far below the City's goal to maintain a debt service coverage ratio of less than 10%.

Development and Maintenance of Financial Reserves – The City has an established financial policy regarding maintenance of adequate financial reserves. The City sets aside 20% of General

TRANSMITTAL LETTER • INTRODUCTORY SECTION

Fund operating expenses for contingencies (unanticipated events that could negatively impact the City's financial condition.) The City has never had occasion to draw on this reserve, since its inception in the early 1990's. The City also maintains a General Fund budget stabilization reserve, established in 2007 in anticipation of the ensuing recession. This reserve is funded at a minimum of 2% of operating revenues. The City has not had any need to draw on this reserve, despite the decline in operating revenues experienced during the recession. Any amounts remaining after these two reserves are fully funded are considered available for City Council directed use, primarily for future funding of capital improvements. General Fund reserves for contingencies and budget stabilization total \$13.2 million and funding available for capital improvements was \$18.6 million as of June 30, 2016.

Major Initiatives and Projects – In 2013, the City Council developed the City's Strategic Plan which serves as a roadmap to accomplish the City Council's goals and initiatives through the most cost-efficient allocation of resources. The plan incorporates eight vital areas of focus including: Transportation, Recreation, Economic Development, Environment, Arts & Culture, Community Planning, Public Safety and Organizational Effectiveness and Efficiency.

Within the context of the Strategic Plan, on October 7 and December 8, 2015, the City Council held planning workshops to determine the City's Work Program for Fiscal Years 2015-16 and 2016-17. While the City works on many other projects, this Work Program provides a foundation for making tangible progress on specific projects identified during the planning workshops. A few of the Work Program projects are highlighted below.

Circulation Element – Mobility – Under this broad project are more than a dozen specific projects that include safe routes to school sidewalk projects, a grade-separated pedestrian rail crossing at El Portal Ave., the evaluation of a at-grade pedestrian rail crossing at Montgomery Ave., construction of ADA curb ramps at various locations throughout the City, addition of a coastal rail trail and the annual pavement rehabilitation program. Funding for these projects comes from a variety of sources, including Transnet (the Countywide one-half cent sales tax for regional projects), Community Development Block Grant, State Grants, Local and Regional Traffic Impact Fees, and the General Fund.

Coastal Restoration Project - Beach nourishment projects are a “soft” or “green” solution to coastal erosion as they reduce the need for additional seawalls, and considered a climate adaptation strategy in the recently adopted California Coastal Commission Sea Level Rise Policy Guidance document. The United States Corp of Engineers Encinitas-Solana Beach Storm Damage Reduction Project is a long-term plan for beach sand nourishment along approximately 7,800 feet of Encinitas coastline.

Leucadia 101 Streetscape – This project provides streetscape improvements along N. Coast Highway 101 from A Street to La Costa Avenue. Phase I will construct full improvements from A Street to Basil Street and extend other elements such as road diet and tree plantings throughout the entire corridor.

Moonlight Beach Marine Safety Center - The Moonlight Beach Marine Safety Center will replace the existing Lifeguard Tower at Moonlight Beach, which is functionally obsolete. Construction on the \$3.7 million structure is scheduled to be complete in May 2017.

Coastal Mobility and Livability Study – The Rail Corridor Vision Study, Coastal Business Districts Parking Study and Active Transportation Plan are three related mobility studies. These three related mobility studies are being conducted as a consolidated work program, with integrated project management, schedule and public engagement.

TRANSMITTAL LETTER • INTRODUCTORY SECTION

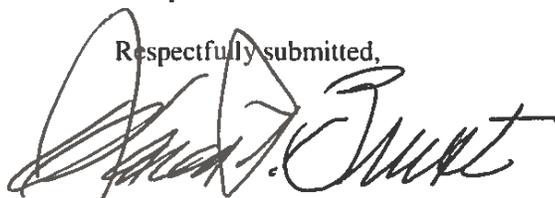
Active Transportation Plan - This Council-directed study combines the Let's Move, Encinitas! Pedestrian and Safe Routes to School Plan with the Bicycle Master Plan, the Trails Master Plan, and the Transit Needs Assessment, into a comprehensive document. The plan will provide a prioritized list of projects to assist Council in developing future Capital Improvement Project budgets.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded their Certificate of Achievement for Excellence in Financial Reporting to the City of Encinitas for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. The City feels the FY 2015-16 Comprehensive Annual Financial Report continues to meet the GFOA criteria for the award.

Lastly, we deeply appreciate the dedication and leadership of the Mayor and Council Members who have consistently supported our goal of excellence in all aspects of financial management. The completion of this report could not have been accomplished without the dedication and hard work of the staff in the Finance Department. Special recognition goes to Finance Manager Cindy Choquette, for her work with the auditors and the coordination of the preparation of this report.

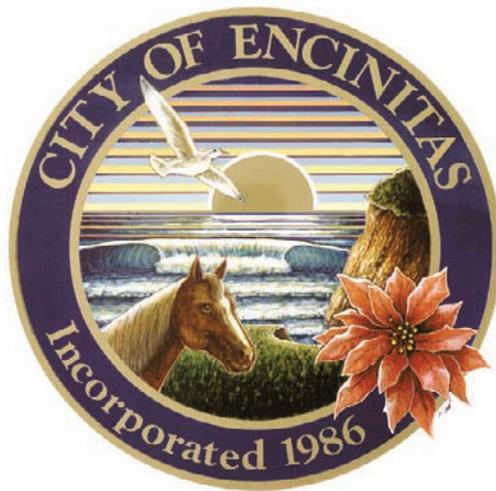
Respectfully submitted,



Karen P. Brust
City Manager



Tim Nash
Director of Finance



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LIST OF CITY OFFICIALS
As of June 30, 2016

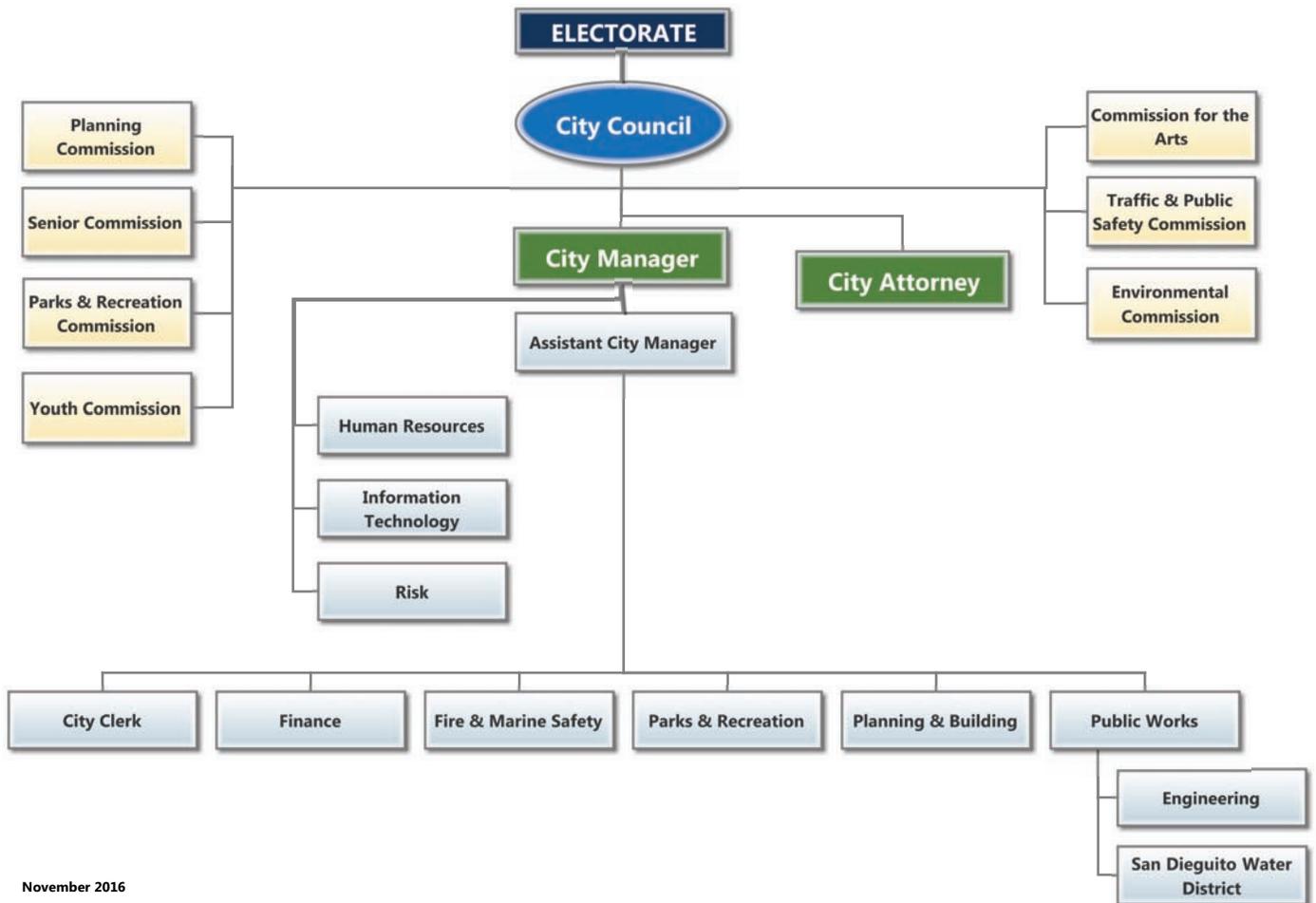
CITY COUNCIL

Mayor	Kristin Gaspar
Deputy Mayor	Lisa Shaffer
Councilmember	Catherine S. Blakespeare
Councilmember	Tony Kranz
Councilmember	Mark Muir

EXECUTIVE TEAM MEMBERS

City Manager	Karen P. Brust
City Clerk/Legislative Services Director	Kathy Hollywood
Public Works Director	Glenn Pruiam
Finance Director	Tim Nash
Fire Chief	Michael Stein
Human Resources Department Manager	Jodene Dunphy
Chief Information Officer	Lynne Tufts
Law Enforcement Services Director	Captain John Maryon
Parks & Recreation Department Director	Jennifer Campbell
Planning & Building Director (Interim)	Manjeet Ranu
Risk Management Manager	Jace Schwarm

*City of Encinitas
Organizational Chart*



November 2016



Government Finance Officers Association

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

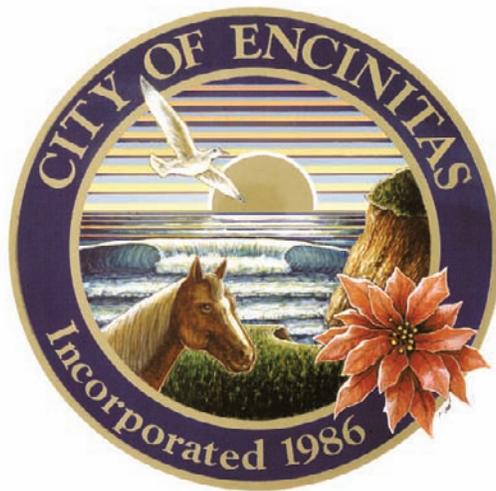
Presented to

**City of Encinitas
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Encinitas, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Investments in Joint Ventures which represent 9.6 percent, 14.3 percent and 3.8 percent of the assets, net position, and expenses, respectively, of the City. The financial statements of these agencies, as listed in Note 5 to the basic financial 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 Investments in Other Agencies, 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.

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, each major fund, and the aggregate remaining fund information of the City as of June 30, 2016, 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, Schedules of the Proportionate Share of the Net Pension Liability, Schedules of Contributions, and Schedules of Funding Progress on pages 7 through 19 and 119 through 128 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 and other auditors 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.

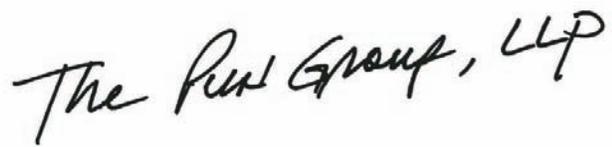
The Combining and Individual Nonmajor Fund Financial Statements and Budgetary Comparison Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected 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 Encinitas
Encinitas, California
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

San Diego, California
December 7, 2016



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Encinitas, California (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

San Diego, California
December 7, 2016



City of Encinitas Management's Discussion and Analysis For the Year Ended June 30, 2016

This discussion and analysis of the City of Encinitas' financial performance provides an overview of the fiscal year ended June 30, 2016. The City's financial statements include the accounts of the City, the Encinitas Public Financing Authority (EPFA), the Encinitas Housing Authority (EHA), and the San Dieguito Water District (SDWD). Please read it in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The City's total assets increased overall by \$7.5 million. This is composed of a \$4.5 million increase in Governmental activities and \$3.0 million increase in Business-Type activities.
- The City's total net position increased overall by \$11.8 million. Total assets increased \$7.5 million and total liabilities increased \$1.9 million (due to an increase in the aggregate net pension liabilities).
- The City's total revenues increased \$5.1 million from 2015.
 - Governmental activities revenues increased \$6.0 million
 - Business-type activities revenues decreased \$.9 million
- The City's total expenses increased \$0.8 million from 2015.
 - Governmental activities expenses increased \$3.4 million
 - Business-type activities expenses decreased \$2.6 million

THE FINANCIAL STATEMENTS

The financial statements presented herein include all the activities of the City of Encinitas (City) and the component unit of San Dieguito Water District (SDWD) using the integrated approach as prescribed by GASB Statement No. 34. The City includes accounts for the Encinitas Public Financing Authority (EPFA) and the Encinitas Housing Authority (EHA).

The Government-Wide Financial Statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present Governmental activities and Business-type activities separately. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). Certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.



City of Encinitas Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

The Fund Financial Statements include statements for each of the three categories of activities: Governmental, Business-Type (proprietary) and Fiduciary. The Governmental activities (other than internal service activities) are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The Business-Type activities are prepared using the economic resources management focus and the accrual basis of accounting. The Fiduciary activities include agency funds that only report a balance sheet and do not have a measurement focus. Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are included in order to explain the differences created by the integrated approach (please see pages 34 and 36).

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The Government-Wide Financial Statements consist of two financial statements. The *Statement of Net Position* and the *Statement of Activities and Changes in Net Position*, report information about the City as a whole and its activities. These statements include all assets and liabilities of the City using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Revenues and expenses for the current fiscal year are accounted for, regardless of when cash is received or paid. One of the most important questions asked about the City's finances is "Are the City's finances better or worse off as a result of this year's activities?" These statements can help answer this question and provides an analysis of the City's financial position.

The Statement of Net Position presents information on all of the City's assets, deferred outflows-inflows and liabilities, with the difference between the four reported as *Net Position*, which is one way to measure the City's financial health. Over time, increases or decreases in the City's Net Position is one indicator of whether its financial health is improving or deteriorating.

The Statement of Activities presents information showing how the City'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 (i.e. uncollected taxes and earned but unused vacation leave).

In both the Statement of Net Position and the Statement of Activities and Changes in Net Position, the City activities are separated as follows:

Governmental activities - Most of the City's basic services are reported in this category, including General Government, Public Safety, Public Works, Building and Planning, Engineering Services, and Parks and Recreation. Property and sales taxes, user fees, franchise fees, investment earnings and state and federal grants finance these activities.

Business-Type activities – The City charges a fee to customers to cover all or most of the cost of certain services it provides. These activities include the water and wastewater operations and a portion of the City's affordable housing program.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Reporting the City's Most Significant Funds

Fund Financial Statements – The City's Fund Financial Statements provide a greater level of detail regarding the City's *Governmental Activities*, which include the General fund, Capital Improvements, and other Nonmajor Governmental funds. The City reports the General fund and the Capital Improvements fund as major funds, under the guidance provided by GASB No. 34. All other governmental funds are considered Nonmajor funds, and are reported as one group. The General Fund is the largest and most discretionary source of funding for operations, debt service and capital improvements, via both direct expenditures and transfers to other City funds. The Capital Improvements Capital Projects Fund accounts for all governmentally funded capital improvements, as well as a number of work projects such as long-term consultant studies. All of these expenses appear as capital outlay expenditures. Capital spending totaled \$10.8 million this fiscal year, a decrease of approximately \$7.6 million from the prior year. Further discussion of the City's capital program is included in the section below entitled CAPITAL ASSETS AND CAPITAL IMPROVEMENT PROGRAM. The other Nonmajor Governmental Funds are primarily Special Revenue funds, where monies are collected and held, but are restricted to the specific purpose for which they are collected. The City's Debt Service funds are included in this group. Discussion of the City's debt service program is included in the section below entitled DEBT ISSUANCE AND ADMINISTRATION.

The City's Major Funds include:

Type of Activity

- | | |
|--|--------------------------|
| • General Fund | Governmental Activities |
| • Capital Improvements Capital Projects Fund | Governmental Activities |
| • City's Water and Wastewater Enterprises | Business-Type Activities |
| ○ San Dieguito Water District | |
| ○ Cardiff Sanitary Division | |
| ○ Encinitas Sanitary Division | |

Governmental funds – Most of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported by using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental fund statements provide a detailed *short-term view* of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be used in the near future to finance the City's programs.

Proprietary funds - When the City charges customers for the services it provides (whether to outside customers or to other units of the City), these services are generally reported in proprietary funds. Proprietary funds are reported in the same manner as the governmental activities are reported in *Statement of Net Position* and the *Statement of Activities and Changes in Net Position*. The City's enterprise funds (one component of the proprietary funds) are the same as the business-type activities reported in the government-wide financial statements, but provide more detail and additional information such as cash flows for proprietary funds. Internal service funds (the other component of the proprietary funds) report activities that provide supplies and services to other City's programs and activities. The Internal Service funds are reported with Governmental activities in the Government-Wide financial statements.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Fiduciary funds – The City is the trustee, or *fiduciary*, for certain funds held on behalf of the Community Facilities District No. 1 (the Encinitas Ranch Development) and Requeza Street Assessment District No. 93-1. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Liabilities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Net Position – The City of Encinitas' combined Net Position (i.e. inclusive of *all* City funds) for the fiscal year ended June 30, 2016 are compared to results for 2015 in **Table 1**.

Table 1

Statement of Net Position
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 74.8	\$ 66.2	\$ 42.7	\$ 42.5	\$ 117.5	\$ 108.7
Capital assets (net)	217.9	218.8	55.6	55.7	273.5	274.5
Other non-current assets	4.3	7.5	43.6	40.7	47.9	48.2
Total Assets	297.0	292.5	141.9	138.9	438.9	431.4
Current liabilities	16.5	14.8	4.1	4.5	20.6	19.3
Long-term liabilities	86.7	86.9	18.8	18.0	105.5	104.9
Total Liabilities	103.2	101.7	22.9	22.5	126.1	124.2
Deferred inflows (outflows)	0.5	5.5	(0.4)	0.8	0.1	6.3
Net Position:						
Net investment in capital assets	162.9	157.3	42.5	39.8	205.4	197.1
Restricted	31.0	18.8	1.4	-	32.4	18.8
Unrestricted	(0.6)	9.2	75.5	75.8	74.9	85.0
Total Net Position	\$ 193.3	\$ 185.3	\$ 119.4	\$ 115.6	\$ 312.7	\$ 300.9



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Net Position represents the most simple test of financial health for the City, indicating the excess (or deficit) of assets and deferred outflows of resources over liabilities. Net Position for the City as a whole increased 3.9% from \$300.9 million at June 30, 2015, to \$312.7 million at June 30, 2016.

- The overall increase in total assets is \$7.5 million. The Governmental activities total assets increased \$4.5 million with a slight decrease in cash/investments, an increase in receivables and inventory as well as a decrease in capital assets. The Business-Type activities total assets increased \$3.0 million with increases in both investment in joint ventures and capital assets. In summary, the Governmental increase of \$4.5 million plus the Business-Type increase of \$3.0 million results in an overall *increase* to the City's total assets of \$7.5 million.
- The overall increase in total liabilities is \$1.9 million. This is the net change attributable to \$4.2 million increase in the long-term liabilities and \$2.3 million decrease in other liabilities in the Governmental and Business activities (accounts payable, deposits, and unearned revenue). \$4.0 million of the overall increase in long-term liabilities is the result of an increase in net pension liabilities (governmental activities total \$ 2.8 million and business-type activities total \$1.2 million).
- The increase of total assets of \$7.5 million along with an increase of Total Liabilities of \$1.9 million and a decrease in Deferred Inflows of \$6.2 million has increased the City's Total Net Position by \$11.8 million or approximately 3.9% increase from 2015.

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City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Table 2

Statement of Activities and Changes in Net Position
(in millions of dollars)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Program Revenues:						
Charges for services	\$ 8.6	\$ 6.4	\$ 22.5	\$ 23.7	\$ 31.1	\$ 30.1
Operating grants	3.3	3.9	1.1	1.0	4.4	4.9
Capital grants	5.4	4.1	0.7	0.5	6.1	4.6
General Revenues:						
Property taxes	41.2	38.5	0.9	0.8	42.1	39.3
Sales and use taxes	14.2	12.6	-	-	14.2	12.6
Other taxes	4.8	4.6	-	-	4.8	4.6
Intergovernmental	0.4	0.8	-	-	0.4	0.8
Other general revenue	1.6	2.6	0.1	0.2	1.7	2.8
Total Revenues	79.5	73.5	25.3	26.2	104.8	99.7
Program Expenses:						
General government	11.7	10.8	-	-	11.7	10.8
Public safety	27.3	25.8	-	-	27.3	25.8
Public works	11.7	11.6	-	-	11.7	11.6
Planning and building	7.3	6.6	-	-	7.3	6.6
Engineering services	4.6	6.2	-	-	4.6	6.2
Parks and recreation	6.8	5.2	-	-	6.8	5.2
Interest on long-term debt	2.5	2.3	-	-	2.5	2.3
Cardiff Sanitary Division	-	-	3.9	4.3	3.9	4.3
San Dieguito Water District	-	-	13.5	15.0	13.5	15.0
Encinitas Sanitary Division	-	-	2.3	1.7	2.3	1.7
Affordable Housing	-	-	1.4	1.4	1.4	1.4
Recreation	-	-	-	1.3	-	1.3
Total Expenses	71.9	68.5	21.1	23.7	93.0	92.2
Change in Net Position	7.6	5.0	4.2	2.5	11.8	7.5
Transfers in (out)	0.4	-	(0.4)	-	-	-
Increase in Net Position	8.0	5.0	3.8	2.5	11.8	7.5
Net Position - beginning	185.3	180.3	115.6	113.1	300.9	293.4
Net Position - ending	\$ 193.3	\$ 185.3	\$ 119.4	\$ 115.6	\$ 312.7	\$ 300.9



City of Encinitas Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

Chart 1 shows the financial impact of the various City programs, or the extent to which these programs generate revenue from fees and grants. The City's programs include General Government, Public Safety (Fire and Law Enforcement), Public Works, Planning and Building, Engineering Services, and Parks and Recreation. Each program's net cost (total cost less revenues generated by the activities) is presented in the Statement of Activities and Changes in Net Position.

Chart 1
Expenses vs. Program Revenue
(Governmental Activities)

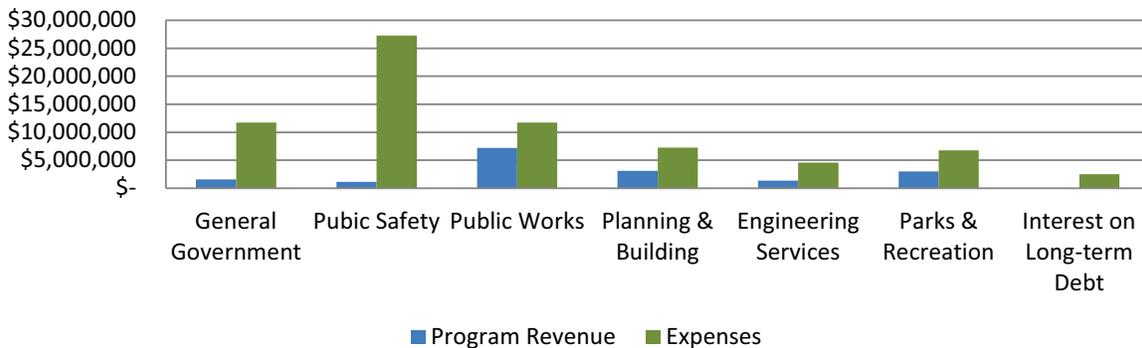
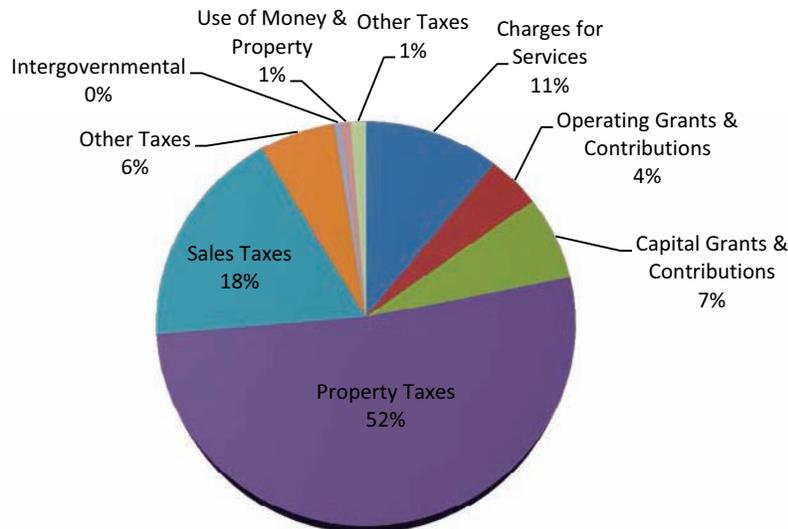


Chart 2 shows that Property Tax, Sales Tax, Charges for Services, Capital Grants and Contributions, and Operating Grants and Contributions, which are the top five categories of revenue and comprise 94% of funding for Governmental activities. The *Other* category includes proceeds from the disposition of City real property, intergovernmental, cost recovery, and miscellaneous revenues.

Chart 2
Governmental Revenues





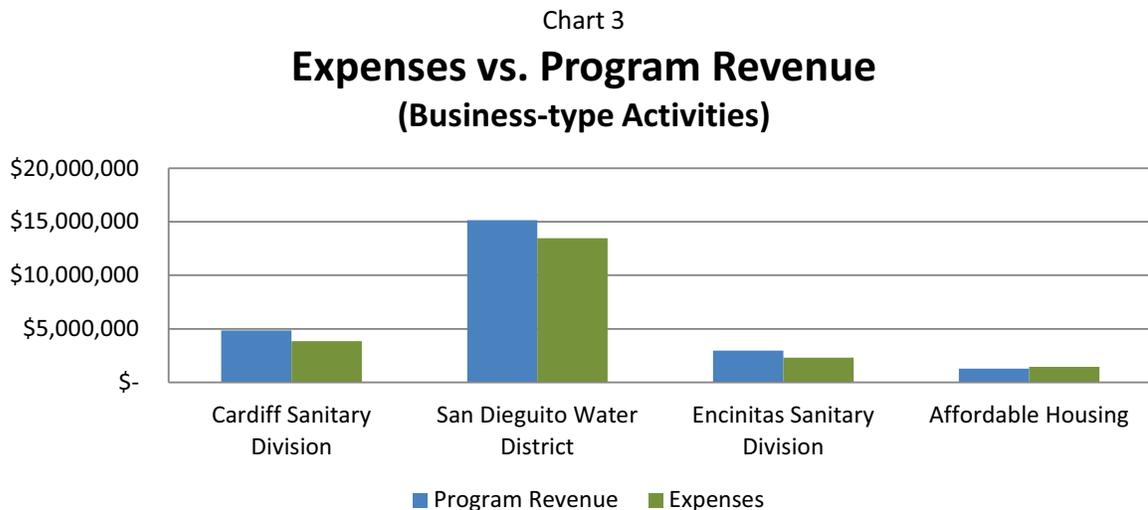
City of Encinitas Management's Discussion and Analysis (Continued) For the Year Ended June 30, 2016

Business-Type Activities for the City of Encinitas include water and wastewater operations and a portion of the City's affordable housing program. These activities increased Net Position (including transfers) by \$3.8 million from the last fiscal year as noted in in Table 2. Overall revenues decreased \$0.9 million while overall expenses decreased \$2.6 million from 2015. Net transfers (an increase to Net Position) increase \$0.4 million from the prior year.

The Statement of Revenues, Expenses, and Changes in Net Position for proprietary funds indicate a decrease of \$1.3 million in operating revenues from the previous year. The Water operating revenue decreased \$0.1 million while Wastewater and Affordable Housing revenues increased \$1.4 million. Operating expenses decreased \$2.7 million. The primary reason for the decrease in operating revenue and expenses in 2016 is attributable to the recreation program funds being transferred back to the General Fund and are now reported in the Governmental activities starting 2016.

Overall, operating revenue exceeded operating expenses (before transfers) in 2016 resulting in a total net operating income of \$1.3 million.

Chart 3 below compares program revenue from Business-Type activities to program expenses. Water and wastewater operations operated at a surplus, as referenced in the Statement of Activities and Changes in Net Position (with transfers-out for \$462,721 appearing "below the line" of program expenses).





City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

General Fund

General Fund Budgetary Highlights

General Fund Revenues

\$2.0 million above projections

Property taxes made up 60% of the general fund revenue budget. The City of Encinitas receives approximately 24 cents of each dollar of property tax revenue generated in the City. Current secured property taxes, along with other property tax categories, exceeded projections by \$530,243, a 7.1% increase over 2015. Documentary transfer tax exceeded projections by \$137,189. Sales tax is the City's second largest revenue source and actual revenue received exceeded projections by \$381,583, a 12.6% increase over 2015. 80% of the City's Transient Occupancy Tax (TOT) is deposited to the General Fund and 20% is deposited to the Coastal Zone Management Fund for sand replenishment. TOT revenue exceeded projections by \$114,172, an increase of 10.4% from 2015. Overall, franchise taxes exceeded projections by \$161,567. Licenses and permits were lower than projections by \$17,773 mainly due to a decrease in business registration renewals and short-term vacation permits. Intergovernmental revenue was lower than projected by \$185,068, primarily due to revenue not yet received from agencies participating in the Carlsbad Watershed Management Area Cost Sharing Agreement. Planning and building fees were lower than projections, while Engineering, Fire and Recreation fees exceeded projections so overall Charges for Services revenue exceeded projections by \$201,892. Fines and Penalties, which include vehicle code and red light violations, exceeded projections by \$154,638. Use of money and property include investment earnings which exceeded projections by \$211,577 and income from City property rentals that exceeded projections by \$169,539, an increase of 59.7%. This was primarily due to an additional lease agreement for a cell tower at Fire Station 3. Other general fund revenues overall exceeded projections by \$183,593, primarily due to an increase in cost recovery revenue received.

General Fund Expenditures

\$2.4 million under budget

All general fund functional areas, including general government/administration, experienced savings in the current fiscal year, with total savings (budget vs. actual) of over \$2.4 million. This represents savings of approximately 4.2%. Actual general fund expenditures were \$54.9 million compared to prior year actuals of \$52.1 million.

Excess of Revenues over Expenditures

\$4.4 million above projections

Actual revenues over expenditures were approximately \$13.8 million, compared to a budget of \$9.4 million. NOTE: This does not take into account the Other Financing Sources (Uses) discussed below. This result is a combination of revenues being above projections and expenditures being under budget, as discussed above.

Other Financing Sources and Uses – General Fund

Other Financing Sources and Uses consisted of Transfers-in and Transfers-(out) this fiscal year.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Scheduled transfers-in included: (a) monies from the Gasoline Taxes special revenue fund, which fund a portion of the City's street maintenance program, and (b) monies for impact fees collected for community facilities and fire mitigation. The impact fees are transferred at year-end to reimburse the General Fund for amounts expended in prior years for the Public Library and Fire Station Rehabilitation projects. Transfers in for operating were lower than budgeted by \$35,591 primarily due to the Gasoline Taxes received were lower than budgeted.

Transfers out to internal service funds includes the General Fund's contribution to the Self-Insurance fund. The contribution was set and funded at approximately \$900,000.

Appropriations for capital projects from the general fund totaled \$16.0 million in 2016.

Transfers-(out) for debt service totaled \$5.0 million, which was the same as the \$5.0 million budgeted

Analysis of Fund Balance and Changes in Fund Balance

Fund balance projected to be \$28.5 million as of June 30, 2016, a scheduled decrease of about \$12.9 million. Actual fund balance was \$32.9 million, or \$4.4 million higher than projected.

There was an *excess of revenues over expenditures* of 13.8 million. Factoring in transfers for debt service payments of \$5.0, capital expenditures of \$16.1 and other transfer activity of \$1.2 million, the net result is a decrease in total fund balance of \$8.5 million at year-end.

CAPITAL ASSETS AND THE CAPITAL IMPROVEMENT PROGRAM

As of June 30, 2016, the City had approximately \$393.4 million invested in a broad range of capital assets including road and drainage systems, parks and beach facilities, public buildings, water and wastewater treatment facilities, collection and distribution systems and affordable housing stock. Of that amount, \$298.9 million is classified as capital assets under the category of *Governmental Activities*, and \$94.5 million is classified as capital assets of *Business-Type Activities*. In addition, there are \$42.2 million of assets under Business-Type Activities classified as Investment in Joint Ventures. This investment consists mainly of capital assets belonging to related governmental agencies where the City holds an equity interest in the joint venture. The assets are principally water and wastewater treatment facilities.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Governmental Activities

\$298.9 million

The City has two Capital Projects Improvement Funds for the capital improvements for *governmental activities*. These include public facilities, acquisition of parkland and park improvements, infrastructure, and certain City "work projects" such as multi-year consultant studies that meet the criteria for inclusion as capital projects for budgeting purposes. The City uses a dollar threshold of \$100,000 and a useful life of five years or more in its evaluation for capitalizing a capital expenditure. Eligible project costs are additions to construction in progress (CIP) at fiscal year-end. Costs for completed projects are recorded as additions to the appropriate capital asset category at year-end. .

The City spent approximately \$10.8 million this fiscal year on capital improvement projects. These capital expenditures consisted of a variety of different projects that were either in development or construction phase. The primary emphasis this fiscal year was on the North Coast Highway 101 Streetscape, Santa Fe Drive Improvements, Devonshire Drive Traffic Calming, Civic Center Improvements, El Camino Real Channel Storm Drain Repair, Highway 101 Emergency Repair, and on-going pavement overlay project.

Business-Type Activities

Capital Assets:

\$94.5 million

The City accounts for the acquisition and construction of capital assets for its Water and Wastewater operations under its Proprietary-Type funds and as enterprise activities. Capital spending is recorded as expenses in the appropriate capital fund under each separate activity during the fiscal year. At the end of the fiscal year, the expenses are analyzed to determine if they meet the criteria to be capitalized as long-term fixed assets. The criteria are the same as the City criteria (\$100,000 threshold and a minimum five-year life.) Eligible capital expenses are then capitalized to the construction-in-progress account(s), while non-eligible expenses are reclassified as operating expenses. Total amounts expended on completed projects are then transferred to the appropriate capital asset class.

The City's affordable housing fund carries its investment of about \$4 million in affordable housing stock under the classification of utility, plant, vehicles and equipment. There has not been any capital spending activity in this fund since its original purchase of 16 housing units in 2004.

Investment in Joint Ventures:

\$42.2 million

The City's water and wastewater enterprises each hold equity interests in joint ventures with other local agencies.

SDWD holds an equity interest, along with Santa Fe Irrigation District, in the R.E. Badger Joint Facilities. SDWD makes capital contributions each year for the replacement and improvement of the Joint Facilities, which then gets added to the Investment account at the end of the fiscal year. SDWD also makes monthly payments to cover its ratable share of annual operating costs.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

SDWD also holds an equity interest in the R.E. Badger Water Facilities Financing Authority. The primary content of this investment consists of a ratable share of certain debt service reserve fund assets and capitalized financing costs. Therefore, these resources are not available to SDWD for the funding of its operations.

Cardiff Sanitary Division (CSD) holds an equity interest, along with the City of Solana Beach, in the San Elijo Joint Powers Authority Joint Facilities. CSD makes capital contributions each year for the replacement and improvement of the Joint Facilities, which gets added to its Investment account at the end of the fiscal year. CSD also makes quarterly payments to cover its ratable share of annual operating costs. The treatment facilities, also serving other local agencies, bill quarterly for their ratable share of operations costs and capital improvements.

Encinitas Sanitary Division (ESD) holds an equity interest, along with five other local agencies, in the Encina Wastewater Authority Joint Facilities. ESD makes capital contributions each year for the replacement and improvement of the Joint Facilities. These capital contributions are additions to the Investment account at the end of the fiscal year. The Division also makes quarterly payments to cover its ratable share of annual operating costs.

DEBT ISSUANCE AND ADMINISTRATION

The City has a total of \$73.0 million of long-term debt for both Governmental and Business-type activities as shown in Note 9 – Long-Term Obligations schedule on page 75 of this report. The Governmental Activities debt totaling \$58.7 million include \$2.0 million in capital leases, \$53.0 million in bonded debt and \$3.7 million in claims payable and compensated absences. The capital leases consist of the Civic Center Roof Replacement and fire apparatus vehicles. The Business-type Activities debt totals \$14.3 million and includes \$14.1 million in bonded debt and \$0.2 million in compensated absences. \$8.7 million of the total \$73.0 million is due within one year.

<u>Governmental Activities</u>	\$58.7 million
--------------------------------	----------------

The majority of the City's long-term debt is bonded debt issued in order to acquire and/or construct public facilities including City Hall, the Public Library, the Encinitas Community Park and the Pacific View land acquisition. On September 23, 2015, the Encinitas Public Financing Authority (on behalf of the City) refunded its 2006 Public Library bonds with the principal balance of \$16,975,000 with the 2015 Lease Revenue Refunding Bonds for \$15,645,000. The issuance of the new debt and refunding of the old debt resulted in an economic gain of approximately \$3.2 million and the final maturity is the same. Debt payments for all of these bonds are due semi-annually at fixed amounts, and the debt matures at various times through 2036. Annual debt service averages approximately \$1.1 million.

The City has a policy of utilizing lease/purchase financing for the acquisition of equipment costing more than \$100,000. The City is obligated under a lease/purchase agreement (a private placement with a financial institution) for improvements made to City Hall in 2008. Annual payments on that lease are \$180,000. The City's total annual debt service of approximately \$4.8 million represents approximately 7.0% of annual general fund operating revenues. The City currently leases three Fire Engines and the average annual leases are \$325,000.



City of Encinitas
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2016

Business-Type Activities

\$14.3 million

SDWD and CSD carry long-term debt issued to construct capital improvements to both their distribution and collection systems and their Joint Facilities. The Encinitas Housing Authority has a mortgage loan with a financial institution that partially funded the acquisition of the City's affordable housing units (Pacific Pines). The City is not obligated in any way for repayment of these debt issues.

General Information on City debt

The City of Encinitas obtained and affirmed in 2015 an upgrade to its issuer credit rating to AAA by Standard & Poor's (S & P). The City's credit rating affirmed recently by S & P issued a credit rating of AA+ on the City's 2015 Lease Revenue bonds. Ratings for lease revenue bond issues are typically one notch lower than the issuers' rating, due to the structure of the bond issue.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials consider many economic factors when setting budgets, including national, state and local economic conditions, trends in residential housing, and the unique needs of the community. The Finance Department coordinates the development of the operating and capital budgets presented by the City Manager to the City Council for consideration. The City adopts its operating budget in a two-year cycle, with legal appropriations set for the first year only. The operating and capital budgets for Fiscal Year 2015-16 were appropriated by the City Council in June 2015.

The fiscal year 2015-16 actual results, when compared to the adopted projections and appropriations, showed revenues well above forecasts and expenditures significantly under budget. Fiscal year 2016-17 revenues expect to increase modestly above 2015-16 actual levels. Expenditures expect to rise modestly above 2015-16 levels. Next year's budget does anticipate a 1% adjustment to employee compensation, which is the largest portion of the general fund budget. Debt service costs will remain consistent with 2015-16.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

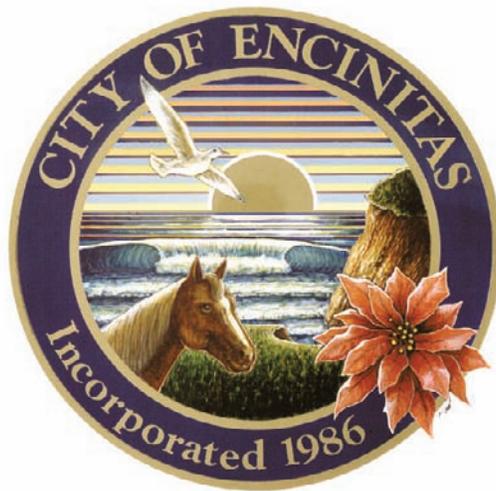
The financial report's intention is to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the monies it receives and manages.

If you have questions about this report or need additional information, please contact the Finance Department of the City of Encinitas, 505 South Vulcan Ave, Encinitas, CA 92024, telephone (760) 633-2600, or visit our website at www.encinitasCA.gov and review the Finance Department webpage.



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BASIC FINANCIAL STATEMENTS



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GOVERNMENT-WIDE FINANCIAL STATEMENTS



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City of Encinitas
Statement of Net Position
June 30, 2016

ASSETS	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Current assets:			
Cash and investments	\$ 64,366,979	\$ 39,850,247	\$ 104,217,226
Restricted cash and investments with fiscal agent	2,559,011	19,510	2,578,521
Receivables	6,721,481	2,625,060	9,346,541
Inventory and prepaid items	1,145,388	261,878	1,407,266
Total current assets	<u>74,792,859</u>	<u>42,756,695</u>	<u>117,549,554</u>
Noncurrent assets:			
Restricted cash and investments with fiscal agent	3,007,966	1,377,006	4,384,972
Internal balances	65,610	(65,610)	-
Long-term receivable	948,633	-	948,633
Investments in joint ventures	-	42,164,196	42,164,196
Other assets	332,518	98,155	430,673
Capital assets:			
Non-depreciable	78,212,996	11,292,597	89,505,593
Depreciable, net	139,695,076	44,278,260	183,973,336
Total capital assets, net	<u>217,908,072</u>	<u>55,570,857</u>	<u>273,478,929</u>
Total noncurrent assets	<u>222,262,799</u>	<u>99,144,604</u>	<u>321,407,403</u>
Total assets	<u>297,055,658</u>	<u>141,901,299</u>	<u>438,956,957</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refunding, net	383,229	-	383,229
Pension related deferred outflows of resources (Note 14)	4,537,030	840,631	5,377,661
Total deferred outflows of resources	<u>4,920,259</u>	<u>840,631</u>	<u>5,760,890</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	4,968,415	1,693,398	6,661,813
Interest payable	525,851	133,468	659,319
Unearned revenue	714,534	892	715,426
Deposits and other liabilities	3,425,669	372,888	3,798,557
Long-term liabilities - due within one year	6,882,319	1,865,249	8,747,568
Total current liabilities	<u>16,516,788</u>	<u>4,065,895</u>	<u>20,582,683</u>
Noncurrent liabilities:			
Long-term liabilities - due in more than one year	51,799,312	12,454,024	64,253,336
Due to R.E. Badger	-	1,377,006	1,377,006
Aggregate net pension liability (Note 14)	34,876,632	5,019,493	39,896,125
Total noncurrent liabilities	<u>86,675,944</u>	<u>18,850,523</u>	<u>105,526,467</u>
Total liabilities	<u>103,192,732</u>	<u>22,916,418</u>	<u>126,109,150</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred gain on refunding, net	-	146,836	146,836
Pension related deferred inflows of resources (Note 14)	5,444,262	287,437	5,731,699
Total deferred inflows of resources	<u>5,444,262</u>	<u>434,273</u>	<u>5,878,535</u>
NET POSITION			
Net investment in capital assets	<u>162,923,350</u>	<u>42,501,264</u>	<u>205,424,614</u>
Restricted:			
Community development	1,372,165	-	1,372,165
Debt service	2,574,192	1,377,006	3,951,198
Capital projects	27,049,952	-	27,049,952
Total restricted	<u>30,996,309</u>	<u>1,377,006</u>	<u>32,373,315</u>
Unrestricted	<u>(580,736)</u>	<u>75,512,969</u>	<u>74,932,233</u>
Total Net Position	<u>\$ 193,338,923</u>	<u>\$ 119,391,239</u>	<u>\$ 312,730,162</u>

See accompanying Notes to the Basic Financial Statements.

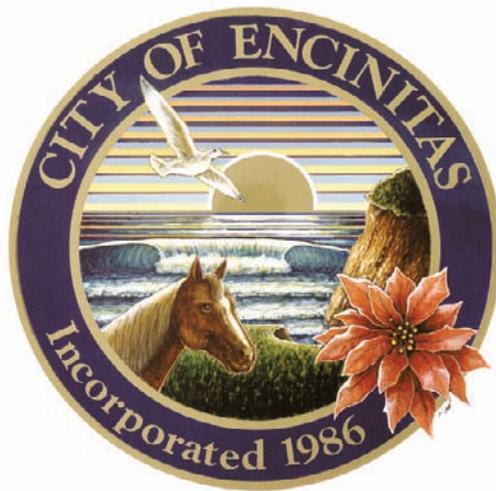
City of Encinitas
Statement of Activities and Changes in Net Position
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Program Revenues
Primary government:					
Governmental activities:					
General government	\$ 11,750,738	\$ 1,594,277	\$ -	\$ -	\$ 1,594,277
Public safety	27,255,755	1,009,713	133,648	-	1,143,361
Public works	11,743,123	107,279	2,782,836	4,296,593	7,186,708
Planning and building	7,255,460	2,800,413	310,559	225	3,111,197
Engineering services	4,591,315	1,367,902	-	-	1,367,902
Parks and recreation	6,778,769	1,741,619	122,143	1,112,280	2,976,042
Interest on long-term debt	2,494,815	-	-	-	-
Total governmental activities	<u>71,869,975</u>	<u>8,621,203</u>	<u>3,349,186</u>	<u>5,409,098</u>	<u>17,379,487</u>
Business-type activities:					
Cardiff Sanitary Division	3,857,531	4,761,486	-	93,623	4,855,109
San Dieguito Water District	13,462,935	14,684,337	-	470,003	15,154,340
Encinitas Sanitary Division	2,306,540	2,855,690	-	117,786	2,973,476
Affordable Housing	1,440,124	218,148	1,068,549	-	1,286,697
Total business-type activities	<u>21,067,130</u>	<u>22,519,661</u>	<u>1,068,549</u>	<u>681,412</u>	<u>24,269,622</u>
Total primary government	<u>\$ 92,937,105</u>	<u>\$ 31,140,864</u>	<u>\$ 4,417,735</u>	<u>\$ 6,090,510</u>	<u>\$ 41,649,109</u>

City of Encinitas
Statement of Activities and Changes in Net Position (Continued)
For the Year Ended June 30, 2016

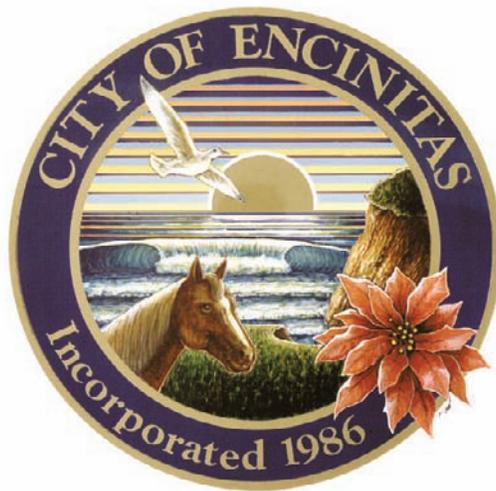
Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (10,156,461)	\$ -	\$ (10,156,461)
Public safety	(26,112,394)	-	(26,112,394)
Public works	(4,556,415)	-	(4,556,415)
Planning and building	(4,144,263)	-	(4,144,263)
Engineering services	(3,223,413)	-	(3,223,413)
Parks and recreation	(3,802,727)	-	(3,802,727)
Interest on long-term debt	(2,494,815)	-	(2,494,815)
Total governmental activities	<u>(54,490,488)</u>	<u>-</u>	<u>(54,490,488)</u>
Business-type activities:			
Cardiff Sanitary Division	-	997,578	997,578
San Dieguito Water District	-	1,691,405	1,691,405
Encinitas Sanitary Division	-	666,936	666,936
Affordable Housing	-	(153,427)	(153,427)
Total business-type activities	<u>-</u>	<u>3,202,492</u>	<u>3,202,492</u>
	<u>(54,490,488)</u>	<u>3,202,492</u>	<u>(51,287,996)</u>
General revenues:			
Taxes:			
Property taxes and transfer fees	41,210,485	906,106	42,116,591
Sales tax	14,166,771	-	14,166,771
Transient occupancy taxes	2,018,024	-	2,018,024
Franchise taxes	2,794,144	-	2,794,144
Total taxes	60,189,424	906,106	61,095,530
Intergovernmental - unrestricted	388,876	-	388,876
Use of money and property	611,350	(63,690)	547,660
Gain on disposal of capital assets	8,750	4,010	12,760
Other	956,940	153,667	1,110,607
Transfers	<u>399,112</u>	<u>(399,112)</u>	<u>-</u>
Total general revenues and transfers	<u>62,554,452</u>	<u>600,981</u>	<u>63,155,433</u>
Changes in net position	8,063,964	3,803,473	11,867,437
Net Position:			
Beginning of year	<u>185,274,959</u>	<u>115,587,766</u>	<u>300,862,725</u>
End of year	<u>\$ 193,338,923</u>	<u>\$ 119,391,239</u>	<u>\$ 312,730,162</u>

See accompanying Notes to the Basic Financial Statements.



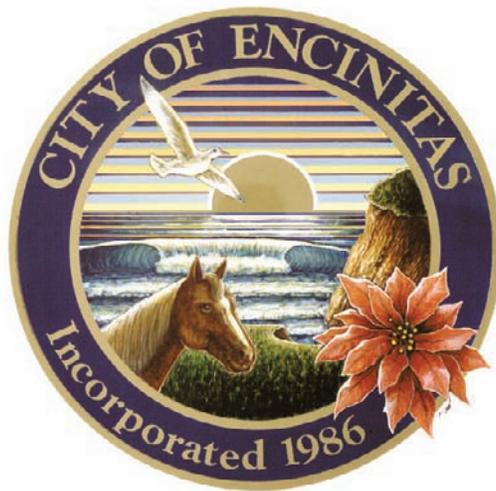
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FUND FINANCIAL STATEMENTS



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GOVERNMENTAL FUND FINANCIAL STATEMENTS



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**City of Encinitas
Balance Sheet
Governmental Funds
June 30, 2016**

	Major Funds			
	General Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 27,578,888	\$ 19,221,877	\$ 11,695,248	\$ 58,496,013
Receivables	5,866,695	-	820,067	6,686,762
Due from other funds	2,516,638	8,200,603	-	10,717,241
Inventory and prepaid items	227,781	-	287,756	515,537
Other assets	332,518	-	-	332,518
Long-term receivable	520,000	-	428,633	948,633
Restricted cash and investments	3,007,966	-	2,559,011	5,566,977
Total assets	\$ 40,050,486	\$ 27,422,480	\$ 15,790,715	\$ 83,263,681
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,159,413	\$ 1,019,579	\$ 613,220	\$ 4,792,212
Interest payable	-	-	-	-
Unearned revenue	596,323	-	118,211	714,534
Due to other funds	-	-	10,021,780	10,021,780
Deposits and other liabilities	3,410,206	-	15,463	3,425,669
Total liabilities	7,165,942	1,019,579	10,768,674	18,954,195
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	-	428,633	428,633
Total deferred inflows of resources	-	-	428,633	428,633
Fund Balances:				
Nonspendable	1,109,424	-	287,756	1,397,180
Restricted	-	-	12,521,387	12,521,387
Committed	-	1,626,219	-	1,626,219
Assigned	-	24,776,682	-	24,776,682
Unassigned	31,775,120	-	(8,215,735)	23,559,385
Total fund balances	32,884,544	26,402,901	4,593,408	63,880,853
Total liabilities, deferred inflows of resources, and fund balances	\$ 40,050,486	\$ 27,422,480	\$ 15,790,715	\$ 83,263,681

City of Encinitas
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2016

Total Fund Balances - Total Governmental Funds	<u>\$ 63,880,853</u>
Amounts reported for governmental activities in the Statement of Net Position were different because:	
Capital assets used in governmental activities were not financial resources and therefore were not reported in governmental funds (net of \$3,195,015 reported in internal service funds).	
Land	61,862,474
Land easements	2,114,042
Construction in progress	14,236,480
Public facilities	100,389,962
Vehicles, equipment and machinery	1,935,410
Infrastructure	111,024,528
Less: Accumulated depreciation	<u>(76,849,839)</u>
Total capital assets	<u>214,713,057</u>
Deferred loss on refunding in the governmental activities were not financial resources and therefore were not reported in governmental funds.	
	<u>383,229</u>
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	
	<u>(525,851)</u>
Long-term liabilities applicable to the City's governmental activities were not due and payable in the current period and therefore were not reported in the governmental funds (net of \$927,533 reported in internal service funds):	
Amount reported in Government-Wide Statement of Net Position:	
2008 Civic Center roof replacement	(1,123,307)
1997 Civic Center COPs	(590,000)
2002 ABAG financing	(565,000)
2010 Community Park Lease Revenue Bonds, net of unamortized premium of \$152,656	(15,417,656)
2013 Community Park Bonds, net of unamortized premium of \$105,120	(7,025,120)
2014 Moonlight Beach Tower Series A Bonds, net of unamortized discount of \$53,303	(2,976,697)
2014 Pacific View Series B Bonds, net of unamortized discount of \$222,803	(9,942,197)
2015 Library Refunding Bonds, net of unamortized premium of \$772,212	(16,417,212)
Claims payable	(1,589,220)
Compensated absences	<u>(2,107,689)</u>
Total long-term liabilities	<u>(57,754,098)</u>
Aggregate net pension liability is not due and payable in the current period and therefore is not required to be reported in the governmental funds.	
	<u>(34,876,632)</u>
Pension contributions made during the year after the measurement date are reported as expenditures in governmental funds and as deferred outflow of resources in the government-wide financial statements.	
	<u>4,537,030</u>
Actuarially determined pension deferred inflows of resources are reported in the government-wide statements:	
Difference between expected and actual experience	(254,827)
Difference between projected and actual earnings on pension plan investments are reported in the government-wide statements	(743,525)
Changes in actuarial assumptions	(1,925,790)
Difference between employer contributions and proportionate share of contributions	(720,785)
Deferred change in pension plan proportion	<u>(1,799,335)</u>
	<u>(5,444,262)</u>
Unavailable revenue deferred inflows of resources are not available for the current period and, therefore, are deferred in the governmental funds or not recorded in the governmental funds.	
	<u>428,633</u>
Internal service funds were used by management to charge the costs of risk management, personnel support, fleet maintenance and vehicle replacement to individual funds. The assets and liabilities of the internal service funds were included in governmental activities in the Government-Wide Statement of Net Position.	
	<u>7,996,964</u>
Net Position of Governmental Activities	<u><u>\$ 193,338,923</u></u>

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	Major Funds			Total Governmental Funds
	General Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	
REVENUES:				
Taxes and assessments	\$ 58,479,429	\$ -	\$ 2,845,879	\$ 61,325,308
Licenses and permits	232,227	-	-	232,227
Intergovernmental	801,966	-	5,887,509	6,689,475
Development impact fees	-	-	1,695,565	1,695,565
Charges for services	6,585,518	-	-	6,585,518
Fines, forfeitures and penalties	889,388	-	-	889,388
Use of money and property	972,663	-	250,067	1,222,730
Other	779,892	-	96,474	876,366
Total revenues	68,741,083	-	10,775,494	79,516,577
EXPENDITURES:				
Current:				
General government	9,096,174	-	192,053	9,288,227
Public safety	26,775,120	-	201,016	26,976,136
Public works	3,970,924	-	2,334,416	6,305,340
Planning and building	4,896,957	-	262,820	5,159,777
Engineering services	4,078,841	-	219,722	4,298,563
Parks and recreation	6,112,079	-	254,258	6,366,337
Capital outlay	-	10,799,083	-	10,799,083
Debt service:				
Principal	-	-	2,783,268	2,783,268
Interest and fiscal charges	-	-	2,372,231	2,372,231
Total expenditures	54,930,095	10,799,083	8,619,784	74,348,962
REVENUES OVER (UNDER) EXPENDITURES	13,810,988	(10,799,083)	2,155,710	5,167,615
OTHER FINANCING SOURCES (USES):				
Proceeds from bond issuance	-	-	15,645,000	15,645,000
Premium on bond issuance	-	-	772,212	772,212
Deposit to escrow for bond refunding	-	-	(16,820,243)	(16,820,243)
Proceeds from sale of property	-	-	-	-
Transfers in	1,519,174	37,647,543	5,383,529	44,550,246
Transfers out	(23,848,063)	(445,559)	(21,283,822)	(45,577,444)
Total other financing sources (uses)	(22,328,889)	37,201,984	(16,303,324)	(1,430,229)
NET CHANGE IN FUND BALANCES	(8,517,901)	26,402,901	(14,147,614)	3,737,386
FUND BALANCES:				
Beginning of year	41,402,445	-	18,741,022	60,143,467
End of year	\$ 32,884,544	\$ 26,402,901	\$ 4,593,408	\$ 63,880,853

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Position
For the Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 3,737,386

Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period. 5,651,323

Contributions of capital assets were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not provide current financial resources. Therefore, contribution revenue was not reported as revenue in the Governmental Funds. 9,500

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Position, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds (net of \$310,496 recorded in internal service funds). (6,197,207)

The issuance of long-term liabilities provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of long-term liabilities was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.

Issuance of long-term debt	(15,645,000)
Premium on issuance of long-term debt	(772,212)
Refunding of long-term debt	16,820,243
Principal payment of long-term debt	2,783,268
Interest payment of long-term debt	(177,014)

Amortization expenses were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, amortization expenses were not reported as expenditures in the Governmental Funds.

Bond premium and discount	10,016
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Certain long-term liabilities were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, long-term liabilities were not reported as expenditures in governmental funds. These amounts represented the changes in long-term liabilities from prior year.

Changes in compensated absences	(5,761)
Changes in claims payable	(395,931)

Changes in the net pension liability reported in the Statement of Activities did not require the use of current financial resources and, therefore, were not reported as an expenditure in the governmental funds. (2,814,251)

Pension contribution made after the measurement date is reported as deferred outflow of resources in the Government-Wide Statement of Net Position but is reported as pension expense in governmental funds. 4,537,030

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Position, but it did not require the use of current financial resources. This amount represented the change in accrued interest from prior year. 70,662

Issuances of loans receivable were recorded as expenditures in the governmental funds but not on the Government-Wide Statement of Activities and Changes in Net Position. 428,633

Internal service funds were used by management to charge the costs of certain activities to individual funds. The net revenue of internal service funds was reported with governmental activities (net of \$1,252,139 transfer of capital leases from governmental activities). 23,279

Change in Net Position of Governmental Activities \$ 8,063,964

PROPRIETARY FUND FINANCIAL STATEMENTS

City of Encinitas
Statement of Net Position
Proprietary Funds
June 30, 2016

	Major Enterprise Funds			Nonmajor Affordable Housing
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	
ASSETS				
Current assets:				
Cash and investments	\$ 13,449,441	\$ 15,490,693	\$ 10,435,073	\$ 475,040
Restricted cash and investments with fiscal agent	-	-	-	19,510
Accounts and taxes receivable	88,244	2,481,987	43,443	11,386
Inventory and prepaid items	-	181,393	-	80,485
Total current assets	13,537,685	18,154,073	10,478,516	586,421
Noncurrent assets:				
Restricted cash and investments with fiscal agent	-	1,377,006	-	-
Other assets	-	98,155	-	-
Investment in joint ventures	18,446,627	19,780,139	3,937,430	-
Capital assets:				
Land easements	-	3,219,301	-	-
Public works facility right-of-use	-	3,378,700	-	-
Construction in progress	1,495,624	937,749	2,261,223	-
Capacity rights, net	-	191,221	-	-
Utility, plant, vehicles, and equipment, net	13,499,000	14,756,670	13,024,689	2,806,680
Total capital assets, net	14,994,624	22,483,641	15,285,912	2,806,680
Total noncurrent assets	33,441,251	43,738,941	19,223,342	2,806,680
Total assets	46,978,936	61,893,014	29,701,858	3,393,101
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension related items	-	840,631	-	-
Total deferred outflows of resources	-	840,631	-	-
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	24,806	1,316,714	351,729	149
Due to other funds	-	-	-	65,610
Accrued interest payable	26,630	106,838	-	-
Unearned revenue	-	-	-	892
Deposits	1,250	354,628	-	17,010
Current portion of long-term debt	612,192	1,186,310	-	66,747
Total current liabilities	664,878	2,964,490	351,729	150,408
Noncurrent liabilities:				
Capital leases payable	-	-	-	-
Revenue bonds payable, due in more than one year	-	5,300,000	-	-
Notes and mortgages payable, due in more than one year	1,593,700	4,284,973	-	1,275,351
Due to R.E. Badger	-	1,377,006	-	-
Aggregate net pension liability (Note 14)	-	5,019,493	-	-
Total noncurrent liabilities	1,593,700	15,981,472	-	1,275,351
Total liabilities	2,258,578	18,945,962	351,729	1,425,759
DEFERRED INFLOWS OF RESOURCES				
Deferred amount on refunding	146,836	-	-	-
Deferred pension related items (Note 14)	-	287,437	-	-
Total deferred inflows of resources	146,836	287,437	-	-
NET POSITION				
Net investment in capital assets	12,641,896	13,089,364	15,285,912	1,484,092
Restricted	-	1,377,006	-	-
Unrestricted	31,931,626	29,033,876	14,064,217	483,250
Total net position	\$ 44,573,522	\$ 43,500,246	\$ 29,350,129	\$ 1,967,342

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Net Position (Continued)
Proprietary Funds
June 30, 2016

	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
ASSETS			
Current assets:			
Cash and investments	\$ -	\$ 39,850,247	\$ 5,870,966
Restricted cash and investments with fiscal agent	-	19,510	-
Accounts and taxes receivable	-	2,625,060	34,719
Inventory and prepaid items	-	261,878	629,851
Total current assets	-	42,756,695	6,535,536
Noncurrent assets:			
Restricted cash and investments with fiscal agent	-	1,377,006	-
Other assets	-	98,155	-
Investment in joint ventures	-	42,164,196	-
Capital assets:			
Land easements	-	3,219,301	-
Public works facility right-of-use	-	3,378,700	-
Construction in progress	-	4,694,596	-
Capacity rights, net	-	191,221	-
Utility, plant, vehicles, and equipment, net	-	44,087,039	3,195,015
Total capital assets, net	-	55,570,857	3,195,015
Total noncurrent assets	-	99,210,214	3,195,015
Total assets	-	141,966,909	9,730,551
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension related items	-	840,631	-
Total deferred outflows	-	840,631	-
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	-	1,693,398	176,203
Due to other funds	-	65,610	629,851
Accrued interest payable	-	133,468	-
Unearned revenue	-	892	-
Deposits	-	372,888	-
Current portion of long-term debt	-	1,865,249	331,993
Total current liabilities	-	4,131,505	1,138,047
Noncurrent liabilities:			
Capital leases payable	-	-	595,540
Revenue bonds payable, due in more than one year	-	5,300,000	-
Notes and mortgages payable, due in more than one year	-	7,154,024	-
Due to R.E. Badger	-	1,377,006	-
Aggregate net pension liability (Note 14)	-	5,019,493	-
Total noncurrent liabilities	-	18,850,523	595,540
Total liabilities	-	22,982,028	1,733,587
DEFERRED INFLOWS OF RESOURCES			
Deferred amount on refunding	-	146,836	-
Deferred pension related items (Note 14)	-	287,437	-
Total deferred inflows	-	434,273	-
NET POSITION			
Net investment in capital assets	-	42,501,264	2,267,482
Restricted	-	1,377,006	-
Unrestricted	-	75,512,969	5,729,482
Total net position	\$ -	\$ 119,391,239	\$ 7,996,964

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Major Enterprise Funds			
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	Nonmajor Affordable Housing
OPERATING REVENUES:				
Charges for services	\$ 4,761,486	\$ 14,628,656	\$ 2,855,690	\$ -
Rental income	-	103,181	-	119,682
Contribution from users	-	-	-	-
Interfund revenues	-	55,681	-	97,800
Intergovernmental	-	-	-	120,348
Other revenues	7,165	4,734	2,341	1,287
Total operating revenues	4,768,651	14,792,252	2,858,031	339,117
OPERATING EXPENSES:				
Housing assistance payments	-	-	-	1,069,882
Source of supply	-	5,352,508	-	-
General operations and maintenance	1,013,875	4,729,923	652,711	96,339
Facility operations and maintenance	1,250,059	1,788,841	594,288	-
General and administrative	228,039	76,947	110,964	166,358
Depreciation of capital assets	387,320	675,549	369,141	100,538
Amortization of other assets	-	98,152	-	-
Amortization of investment in joint ventures	915,952	741,015	556,036	-
Administrative support	-	-	-	-
Operational support services	-	-	-	-
Insurance and claims	62,286	-	23,400	7,007
Total operating expenses	3,857,531	13,462,935	2,306,540	1,440,124
OPERATING INCOME (LOSS)	911,120	1,329,317	551,491	(1,101,007)
NONOPERATING REVENUES (EXPENSES):				
Use of money and property	85,383	103,590	64,865	3,273
Property taxes	-	906,106	-	-
Operating grants	-	-	-	1,068,549
Gain (loss) on disposal of capital assets	-	4,010	-	-
Accretion of bond premium	63,768	74,372	-	-
Interest expense	(91,757)	(412,108)	-	(39,799)
Total nonoperating revenues (expenses)	57,394	675,970	64,865	1,032,023
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	968,514	2,005,287	616,356	(68,984)
Capital contributions	93,623	470,003	117,786	-
Transfers in	-	-	-	63,609
Transfers out	-	-	-	-
Total capital contributions and transfers	93,623	470,003	117,786	63,609
CHANGES IN NET POSITION	1,062,137	2,475,290	734,142	(5,375)
NET POSITION:				
Beginning of year	43,511,385	41,024,956	28,615,987	1,972,717
End of year	<u>\$ 44,573,522</u>	<u>\$ 43,500,246</u>	<u>\$ 29,350,129</u>	<u>\$ 1,967,342</u>

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Revenues, Expenses, and Changes in Net Position (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
OPERATING REVENUES:			
Charges for services	\$ -	\$ 22,245,832	\$ -
Rental income	-	222,863	-
Contribution from users	-	-	-
Interfund revenues	-	153,481	2,629,196
Intergovernmental	-	120,348	-
Other revenues	-	15,527	356,423
Total operating revenues	-	22,758,051	2,985,619
OPERATING EXPENSES:			
Housing assistance payments	-	1,069,882	-
Source of supply	-	5,352,508	-
General operations and maintenance	-	6,492,848	-
Facility operations and maintenance	-	3,633,188	-
General and administrative	-	582,308	-
Depreciation of capital assets	-	1,532,548	310,496
Amortization of other assets	-	98,152	-
Amortization of investment in joint ventures	-	2,213,003	-
Administrative support	-	-	1,507,347
Operational support services	-	-	1,026,079
Insurance and claims	-	92,693	1,527,229
Total operating expenses	-	21,067,130	4,371,151
OPERATING INCOME (LOSS)	-	1,690,921	(1,385,532)
NONOPERATING REVENUES (EXPENSES):			
Use of money and property	-	257,111	-
Property taxes	-	906,106	-
Operating grants	-	1,068,549	-
Gain (loss) on disposal of capital assets	-	4,010	8,750
Accretion of bond premium	-	138,140	-
Interest expense	-	(543,664)	(26,249)
Total nonoperating revenues (expenses)	-	1,830,252	(17,499)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS			
	-	3,521,173	(1,403,031)
Capital contributions	-	681,412	(1,252,139)
Transfers in	-	63,609	1,539,310
Transfers out	(462,721)	(462,721)	(113,000)
Total capital contributions and transfers	(462,721)	282,300	174,171
CHANGES IN NET POSITION	(462,721)	3,803,473	(1,228,860)
NET POSITION:			
Beginning of year	462,721	115,587,766	9,225,824
End of year	<u>\$ -</u>	<u>\$ 119,391,239</u>	<u>\$ 7,996,964</u>

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Major Enterprise Funds			
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	Nonmajor Affordable Housing
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from users	\$ 4,758,164	\$ 14,291,536	\$ 2,871,294	\$ 228,919
Cash received from other funds	-	55,681	-	99,216
Cash payments to suppliers and employees for goods and services	(2,546,340)	(11,892,150)	(1,351,214)	(1,338,421)
Other operating revenues	7,165	4,734	2,341	1,287
Net cash provided by (used in) operating activities	2,218,989	2,459,801	1,522,421	(1,008,999)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(349,588)	(650,467)	(401,703)	-
Capital contributions received - connection/capacity fees	93,623	470,003	117,786	-
Principal payments on long-term debt	(627,931)	(1,046,126)	-	(59,520)
Interest payments on long-term debt	(63,291)	(339,173)	-	(39,799)
Capital related payments to other agencies	(504,762)	(1,491,918)	(400,913)	-
Proceeds received from disposal of capital assets	-	4,010	-	-
Net cash (used in) capital and related financing activities	(1,451,949)	(3,053,671)	(684,830)	(99,319)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating grants	-	-	-	1,068,549
Proceeds from property taxes	-	906,106	-	-
Transfers in	-	-	-	63,609
Transfers (out)	-	-	-	-
Net cash provided by (used in) noncapital financing activities	-	906,106	-	1,132,158
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	85,383	103,590	64,865	3,273
Net cash provided by investing activities	85,383	103,590	64,865	3,273
Net increase (decrease) in cash and cash equivalents	852,423	415,826	902,456	27,113
CASH AND CASH EQUIVALENTS:				
Beginning of year	12,597,018	16,451,873	9,532,617	467,437
End of year	\$ 13,449,441	\$ 16,867,699	\$ 10,435,073	\$ 494,550
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:				
Cash and investments	\$ 13,449,441	\$ 15,490,693	\$ 10,435,073	\$ 475,040
Restricted cash and investments with fiscal agent - current	-	-	-	19,510
Restricted cash and investments with fiscal agent - non-current	-	1,377,006	-	-
Total cash and cash equivalents	\$ 13,449,441	\$ 16,867,699	\$ 10,435,073	\$ 494,550

See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from users	\$ 50,054	\$ 22,199,967	\$ 2,951,487
Cash received from other funds	-	154,897	-
Cash payments to suppliers and employees for goods and services	(598,589)	(17,726,714)	(4,100,149)
Other operating revenues	-	15,527	-
Net cash provided by (used in) operating activities	(548,535)	4,643,677	(1,148,662)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	-	(1,401,758)	-
Capital contributions received - connection/capacity fees	-	681,412	-
Principal payments on long-term debt	-	(1,733,577)	(324,606)
Interest payments on long-term debt	-	(442,263)	(26,249)
Capital related payments to other agencies	-	(2,397,593)	-
Proceeds received from disposal of capital assets	-	4,010	8,750
Net cash (used in) capital and related financing activities	-	(5,289,769)	(342,105)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating grants	-	1,068,549	-
Proceeds from property taxes	-	906,106	-
Transfers in	-	63,609	1,539,310
Transfers (out)	(462,721)	(462,721)	(113,000)
Net cash provided by (used in) noncapital financing activities	(462,721)	1,575,543	1,426,310
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	-	257,111	-
Net cash provided by investing activities	-	257,111	-
Net increase (decrease) in cash and cash equivalents	(1,011,256)	1,186,562	(64,457)
CASH AND CASH EQUIVALENTS:			
Beginning of year	1,011,256	40,060,201	5,935,423
End of year	\$ -	\$ 41,246,763	\$ 5,870,966
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:			
Cash and investments	\$ -	\$ 39,850,247	\$ 5,870,966
Restricted cash and investments with fiscal agent - current	-	19,510	-
Restricted cash and investments with fiscal agent - non-current	-	1,377,006	-
Total cash and cash equivalents	\$ -	\$ 41,246,763	\$ 5,870,966

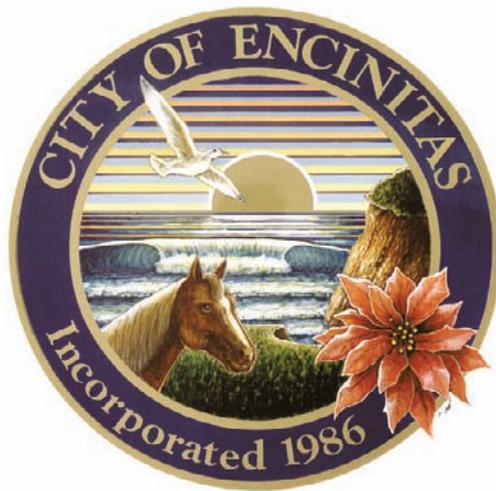
See accompanying Notes to the Basic Financial Statements.

City of Encinitas
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

	Major Enterprise Funds			Nonmajor Affordable Housing
	Cardiff Sanitary Division	San Dieguito Water District	Encinitas Sanitary Division	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 911,120	\$ 1,329,317	\$ 551,491	\$ (1,101,007)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	387,320	675,549	369,141	100,538
Amortization of other assets	-	98,152	-	-
Amortization of investment in joint ventures	915,952	741,015	556,036	-
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts and taxes receivable	(3,322)	(440,301)	15,604	(11,111)
Inventory and prepaid items	-	(33,750)	-	1,719
Pension-related deferred outflows	-	(203,086)	-	-
Accounts payable and accrued liabilities	7,669	(1,647)	30,149	149
Due to other funds	-	-	-	1,416
Unearned revenue	-	-	-	(1,355)
Deposits	250	42,473	-	652
Aggregate net pension liability	-	1,240,208	-	-
Pension-related deferred inflows	-	(988,129)	-	-
Total adjustments	1,307,869	1,130,484	970,930	92,008
Net cash provided by (used in) operating activities	\$ 2,218,989	\$ 2,459,801	\$ 1,522,421	\$ (1,008,999)
NON-CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Amortization of original issue premium	\$ 34,401	\$ 74,372	\$ -	\$ -
Amortization of deferred amount on refunding	29,367	-	-	-
Contributions of capital assets from governmental activities	-	410,603	-	-
	\$ 63,768	\$ 484,975	\$ -	\$ -

City of Encinitas
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2016

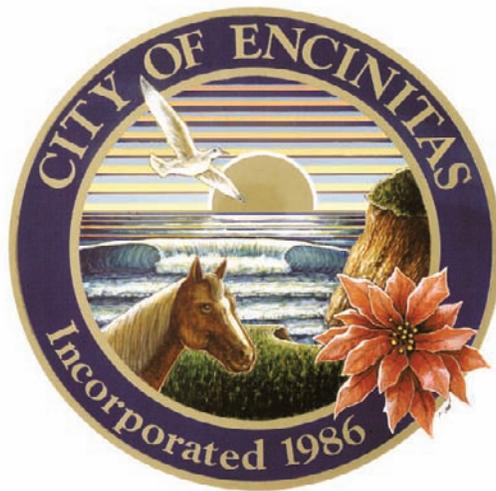
	Nonmajor Recreation Fund	Total	Governmental Activities Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ -	\$ 1,690,921	\$ (1,385,532)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	-	1,532,548	310,496
Amortization of other assets	-	98,152	-
Amortization of investment in joint ventures	-	2,213,003	-
Changes in operating assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
Accounts and taxes receivable	50,054	(389,076)	(34,132)
Inventory and prepaid items	-	(32,031)	(629,851)
Pension-related deferred outflows	-	(203,086)	-
Accounts payable and accrued liabilities	(81,271)	(44,951)	(39,494)
Due to other funds	-	1,416	629,851
Unearned revenue	(513,168)	(514,523)	-
Deposits	(4,150)	39,225	-
Aggregate net pension liability	-	1,240,208	-
Pension-related deferred inflows	-	(988,129)	-
Total adjustments	(548,535)	2,952,756	236,870
Net cash provided by (used in) operating activities	\$ (548,535)	\$ 4,643,677	\$ (1,148,662)
NON-CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Amortization of original issue premium	\$ -	\$ 108,773	\$ -
Amortization of deferred amount on refunding	-	29,367	-
Contributions of capital assets from governmental activities	-	410,603	(1,252,139)
	\$ -	\$ 548,743	\$ (1,252,139)



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FIDUCIARY FUND FINANCIAL STATEMENTS

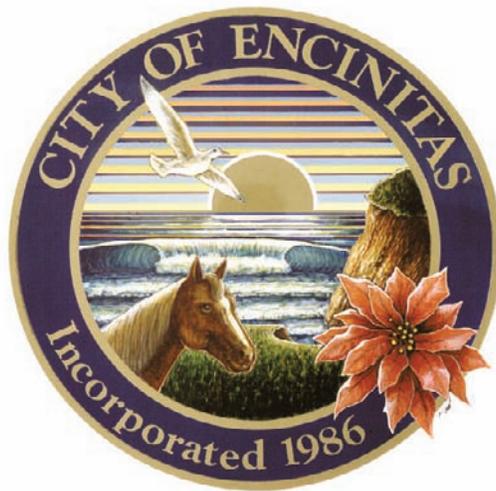
Agency Funds – These funds are used to account for money and property held by the City as trustee or custodian. They are custodial in nature (assets equal liabilities). These funds include one Assessment District and one Community Facilities (Mello-Roos) District.



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City of Encinitas
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Agency Funds
ASSETS	
Cash and investments	\$ 2,092,758
Restricted cash and investments with fiscal agent	1,976,121
Special assessments receivable	<u>28,350,000</u>
Total assets	<u>\$ 32,437,410</u>
LIABILITIES	
Due to bondholders	<u>\$ 32,437,410</u>
Total liabilities	<u>\$ 32,437,410</u>



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City of Encinitas
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

Note 1 – Reporting Entity

The City of Encinitas (the “City”) was incorporated on October 1, 1986, pursuant to an election approving the San Dieguito Reorganization Plan, which consisted primarily of the detachment of territory from the Cardiff area and the annexation of the same territory to the City of Solana Beach.

The reporting entity of the City includes the accounts of the City, as the primary government, and the following blended component units: the Encinitas Housing Authority (the “EHA”), the Encinitas Public Financing Authority (the “EPFA”), and the San Dieguito Water District (“SDWD”).

The EHA was formed on January 26, 1994, under the laws of the State of California to provide housing assistance to citizens of the City.

The EPFA was formed on November 6, 1991, by the City and SDWD as a Joint Powers Authority under the laws of the State of California to purchase, finance, and lease certain real property to the members. The member agencies are the City and the SDWD.

SDWD was formed in 1922 under the laws of the State of California to supply water services to the central western portion of San Diego County. Certain management, maintenance, and operating functions are the responsibility of the City, which bills periodically for these services.

The criteria used in determining the scope of the reporting entity are based on the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity - Omnibus –An Amendment of GASB Statements No. 14 and No. 34*. The City is the primary governmental unit. Component units are financially accountable to the City. Financial accountability exists if the primary government appoints a voting majority of the entity's governing body and (1) it is able to impose its will on that organization or (2) there is potential for the organization to provide financial benefit, or impose financial burdens on the primary government. The component units have been accounted for as "blended" component units of the City. Despite being legally separate, these entities are so intertwined with the City that they are, in substance, part of the City's operations. Accordingly, the balances and transactions of these component units are reported within the funds of the City. SDWD is reported as an enterprise fund of the City.

The following specific criteria were used in determining the status of these component units:

- Members of the City Council also act as the governing body of the EHA, the EPFA, and SDWD.
- The City, the EHA, the EPFA, and SDWD are financially interdependent.
- The EHA, the EPFA, and SDWD are managed, at least in part, by employees of the City, who provide various support functions including financial reporting and investment decisions.

Separate financial statements for SDWD are available at the City's administrative office. Separate financial statements are not required or prepared for the EHA and the EPFA.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies

A. Basis of Presentation

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 governmental accounting and financial reporting standards.

B. Measurement Focus, Basis of Accounting and Financial Statements 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, liabilities, 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.

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, 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 a 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.

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

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Government-Wide Financial Statements (Continued)

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
- Transfers in/out

Government 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 non-major 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 fund balances. 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.

Revenues are recorded when received in cash, except for that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, transient occupancy taxes, franchise taxes, sales tax, licenses, 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 created by the integrated approach of GASB Statement No. 34.

The City reports the following major Governmental Funds:

The **General Fund** is used to account for resources which are not required to be accounted for in another fund. The fund includes the general activities of the City and other administrative functions.

The **Capital Improvements Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major property, equipment, or facilities which are generally financed by governmental funds.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

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

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 four individual funds which provide services directly to other City funds. These areas of service include Risk Management, Wastewater Support, Vehicle Maintenance, and Vehicle Replacement.

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.

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 non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The City reports the following major proprietary funds:

The **Cardiff Sanitary Division ("CSD") Enterprise Fund** provides wastewater collection and treatment services to approximately 6,000 customers in the southern portion of the City.

The **San Dieguito Water District ("SDWD") Enterprise Fund** provides potable and reclaimed water services to approximately 11,000 customers in Encinitas.

The **Encinitas Sanitary Division ("ESD") Enterprise Fund** provides wastewater collection and treatment services to approximately 5,000 customers in the northern portion of the City.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements are accounted for according to the nature of the fund. The City has only Agency funds, which are purely custodial in nature (assets equal liabilities) and thus, do not involve the measurement of the results of operations. These funds are accounted for on the accrual basis of accounting.

The **Agency Fund** accounts for one Assessment District and one Community Facilities (Mello-Roos) District for which the City acts as an agent for debt service activities.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

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.

D. Restricted Cash and Investments with Fiscal Agents

Cash and investments with fiscal agents are restricted due to limitations on their use by bond covenants. Fiscal agents acting on behalf of the City hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, and have been invested only as permitted by specific State statutes or applicable City ordinance, resolution or bond indenture.

E. Fair Value Measurement

In accordance with GASB Statement No. 72, Fair Value Measurement and Application, 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, 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 and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, which are observable for the asset or liability 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 asset or liability at the measurement date.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

F. Receivables

Receivables include such items as taxes, intergovernmental revenues, charges for services, miscellaneous accounts receivable, and interest receivable. No allowance for doubtful accounts has been established, as the City believes all amounts are considered to be collectible in the normal course of business.

G. Investments in Other Agencies

The City's Cardiff Sanitary Division, San Dieguito Water District, and Encinitas Sanitary Division (the "City agencies") participate in joint ventures with other local agencies, generally to more efficiently provide water and wastewater treatment. Each entity has an ownership interest in the respective joint facilities, which are accounted for under the equity method of accounting. The City agencies pay for the fair share of operating costs, and make capital contributions for major maintenance and the upgrade or construction of facilities. The City agencies also record their share of the results of operations for these joint ventures. See Note 5, Investment in Joint Ventures.

H. Inventory and Prepaid Items

Inventory applies only to SDWD and consists of water meters and other material used in the repair of capital facilities. Inventory is valued at average-cost using first-in first-out basis. Prepaid items are payments made to vendors for services that will benefit periods beyond the fiscal year ended, such as prepaid pension costs for the City and SDWD.

I. Other Assets

Other assets include prepaid pension costs for the City and SDWD.

J. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 for non-infrastructure assets and \$100,000 for infrastructure assets. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Structures and improvements	20 - 45 years
Equipment, machinery and vehicles	5 - 20 years
Infrastructure	20 - 50 years
Collection and distribution systems	50 years

The City defines infrastructure as the basic physical assets that allow the City to function.

Governmental fund capital assets include land, land easements, construction in progress, public facilities (buildings and building improvements), vehicles, equipment and machinery, and infrastructure assets (e.g., roads, streets and sidewalks, bridges, curbs and gutters, drainage systems, lighting systems and similar assets).

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

Proprietary fund capital assets include, land easements, public works facility right of use, construction in progress, structures and improvements, collection and distribution systems, machinery and equipment, and capacity rights, which are stated at cost. Contributed assets, which are principally collection and distribution lines, are stated at cost or estimated fair value on the date of donation.

K. Deposit Liabilities

The City collects deposits from homeowners and commercial enterprises as surety for the payment of fees and other costs related to planning and engineering services provided by the City. The City collects two types of deposits: (1) Application Deposits and (2) Security Deposits. Application deposits are collected on certain projects for which a fee for services has not been established. As costs for these projects are incurred by the City, the applicant's deposit balance is adjusted and revenue (including applicable overhead charges) is recognized. Expenses incurred in excess of the deposit amounts are billed to the applicant. Any surplus at project completion is returned to the applicant. Security deposits are collected from the applicant to guarantee required performance. These may either be in cash or in the form of non-cash, such as performance bonds or letters of credit. The amount of cash deposits on hand as of June 30, 2016, is reported as a *current liability* in the *Statement of Net Position and Balance Sheets*. Noncash security deposits are not reported as liabilities, as the corresponding surety is not an asset of the City.

L. Unearned Revenue

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.

M. Long-Term Debt

For the government-wide financial statements and proprietary fund financial statements, long-term debt and other financial obligations are reported as liabilities, net of bond premiums or discounts. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Issuance costs are reported as expense when incurred.

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.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

N. Arbitrage Rebate Requirement

The City is subject to the Internal Revenue Code (“IRC”) Section 148(f), related to its tax exempt revenue bonds. The IRC requires that investment earnings on gross proceeds of any revenue bonds that are in excess of the amount prescribed will be surrendered to the Internal Revenue Service. The City had no rebate liability for arbitrage as of June 30, 2016.

O. Claims Liabilities

The City accounts for material claims and judgments outstanding at year-end. When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss.

P. Compensated Absences

The City’s policy permits its non-fire employees to accumulate not more than two times their current annual vacation allotment. Fire employees can accrue up to a maximum of 720 hours of vacation, depending on length of employment with the City. Non-fire employees are compensated five days of sick leave per year with no balances accruing upon separation of employment. Fire employees may accrue up to 240 hours of sick leave. The combined unused vacation and sick pay will be paid to the employee or his/her beneficiary upon leaving the City’s employment. The amount due will be determined using salary/wage rate in effect at the time of separation.

Government-Wide Financial Statements – For governmental and business-type activities, compensated absences are recorded as expenses and liabilities as incurred.

Fund Financial Statements – In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the City’s policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. The General Fund is typically used to liquidate compensated absences. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund’s share of the unpaid liability is recorded as a long-term liability of the fund.

Q. 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 14). 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:

<u>CalPERS</u>	
Valuation date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Q. Pensions (Continued)

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.

R. Net Position

For government-wide and proprietary fund financial statements, net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

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.

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.

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.

S. Fund Balances

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

Non-spendable – 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.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

S. Fund Balances (Continued)

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 City Council adopts a resolution contained within the annual budget that delegates the authority to the Finance Director to assign fund balance amounts in the annual financial statements.

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 the 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 particular fund.

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.

T. Property Taxes

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of San Diego, California (County) bills and collects property taxes and remits them to the City according to a payment schedule established by the County.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year or the current CPI, whichever is less. The City receives a share of this basic tax levy proportionate to what it received during the years 1980-1981.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

No allowance for doubtful accounts was considered necessary.

U. Use of Estimates

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

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes

New Governmental Accounting Standards Implementation for the Year Ended June 30, 2016

GASB No. 72

In February 2015, The Governmental Accounting Standards Board issued Statement No. 72, *Fair Value Measurement and Application*. This pronouncement provides guidance for determining fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Governments are required to use valuation techniques that are appropriate under the circumstances and for which sufficient data is available to measure fair value. Required disclosures include the level of fair value hierarchy and valuation techniques and should be organized by type of asset or liability. This pronouncement is effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. This pronouncement did not have any new measurement impact on the City's investment portfolio, except for additional disclosure on measurement input as discussed in Note 3 to the Basic Financial Statements.

GASB No. 73

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for the City's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017. This pronouncement did not have a material effect on the financial statements of the City.

GASB Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for the City's fiscal year ending June 30, 2016. This pronouncement did not have a material effect on the financial statements of the City.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes (Continued)

**New Governmental Accounting Standards Implementation for the Year Ended June 30, 2016
(Continued)**

GASB Statement No. 79

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This pronouncement did not have a material effect on the financial statements of the City.

Upcoming Governmental Accounting Standards Implementation

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 74

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by postemployment benefits other than pensions (OPEB) plans that administer benefits on behalf of governments. This statement basically parallels GASB Statement 67 and replaces GASB Statement 43. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

GASB Statement No. 77

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes (Continued)

Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 78

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

GASB Statement No. 80

In December 2015, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

GASB Statement No. 81

In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

V. Accounting Changes (Continued)

Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 82

In December 2015, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for the City's fiscal year ending June 30, 2018.

Note 3 – Cash and Investments

Cash and investments are classified in the accompanying financial statements as follows:

	Government-Wide Statement of Position		Fiduciary Funds Statement of Net Position	Total
	Governmental Activities	Business-type Activities		
Current assets:				
Cash and investments	\$ 64,366,979	\$ 39,850,247	\$ 2,092,758	\$ 106,309,984
Restricted cash and investments with fiscal agent	2,559,011	19,510	1,976,121	4,554,642
Noncurrent assets:				
Restricted cash and investments with fiscal agent	3,007,966	1,377,006	-	4,384,972
Total cash and investments	\$ 69,933,956	\$ 41,246,763	\$ 4,068,879	\$ 115,249,598

Cash and investments at June 30, 2016, consisted of the following:

	Fair Value
Cash on hand	\$ 3,500
Deposits with financial institutions	3,551,617
Investments	111,694,481
Total cash and investments	\$ 115,249,598

At June 30, 2016, cash and investments, excluding restricted cash and investments held by fiscal agent, are reported at fair value based on quoted market prices. The following table represents the fair value measurements of investments recognized in the accompanying Statement of Net Position measured at fair value on a recurring basis and the level within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2016:

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percentage of Investments</u>	<u>Measurement Input</u>
Investments:			
Local Agency Investment Fund (LAIF)	\$ 23,890,024	22.40%	Level 2
California Asset Management Program	1,003,469	0.94%	Level 2
Money Market Mutual Funds	470	0.00%	N/A
Certificates of Deposit	4,004,129	3.76%	N/A
US Treasury Securities	28,266,327	26.51%	Level 2
U.S. Government Sponsored Enterprise Securities	49,467,284	46.39%	Level 2
Total Investments	<u>\$ 106,631,703</u>		

A. Demand Deposits

The carrying amounts of the City's demand deposits were \$3,551,617 at June 30, 2016. Bank balances were \$3,346,015 at that date, the total amount of which was collateralized or insured 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's 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 ("FDIC"). The City, however, has not waived the collateralization requirements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

B. Investments Authorized by the California Government Code and the City’s Adopted Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees 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.

Authorized Investment Type	Authorized by Investment Policy	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Repurchase Agreements-Overnight "Sweep"	Yes	1 year	20%	No Limit
Local Agency Investment Fund (LAIF) **	Yes	N/A	30%	No Limit
Local Agency Bonds	No	5 years	N/A	N/A
Other Governmental Managed Investment Pools	Yes	N/A	30%	No Limit
Money Market Mutual Funds	Yes	N/A	20%	10%
Certificates of Deposit	Yes	5 years	10%	\$1M
Negotiable Certificates of Deposit	Yes	5 years	10%	\$1M
Banker’s Acceptances	Yes	180 days	10%	\$1M
U.S. Treasury Bills, Notes and Bonds	Yes	5 years	50%	15%
U.S. Gov’t Sponsored Enterprises	Yes	5 years	60%	15%
Commercial Paper	Yes	270 days	25%	\$5M
Commercial Medium-Term Notes	Yes	5 years	15%	\$1M

* Excluding amounts held by bond trustee that are not subject to California Government Code restriction.

** Maximum is \$50 million per account.

C. Investments Authorized by Debt Agreements

The investment of the proceeds from debt issuances, held by a third-party trustee, is governed by the provisions of the specific debt agreement rather than by the Gov’t Code or the Investment Policy. The investment types that are authorized and currently utilized by the City are *Guaranteed Investment Contracts* and *Money Market Mutual Funds*.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures

Disclosures Related 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, the greater the sensitivity its fair value is 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 to interest rate risk is provided in the table that shows the distribution by maturity is as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>	
		<u>Less than 12 Months</u>	<u>12 to 60 Months</u>
Investments:			
Local Agency Investment Fund (LAIF)	\$ 23,890,024	\$ 23,890,024	\$ -
California Asset Management Program	1,003,469	1,003,469	-
Money Market Mutual Funds	470	470	-
Certificates of Deposit	4,004,129	2,237,669	1,766,460
Corporate Medium Term Notes	-	-	-
US Treasury Securities	28,266,327	8,006,780	20,259,547
U.S. Government Sponsored Enterprise Securities	49,467,284	12,940,924	36,526,360
Total Investments	106,631,703	48,079,336	58,552,367
Investment with Fiscal Agents:			
Guaranteed Investment Contracts	619,500	-	619,500
Money Market Mutual Funds	4,443,278	4,443,278	-
Total Investment with Fiscal Agents	5,062,778	4,443,278	619,500
Total	\$ 111,694,481	\$ 52,522,614	\$ 59,171,867

Disclosures Related to Credit Risk

Credit risk is defined as the risk that an issuer of an investment will not fulfill its obligation to repay the holder at the maturity date. This is generally measured by the assignment of a rating by a nationally recognized statistical organization. However, some issuers do not seek a credit rating. For instance, the California Local Agency Investment Fund (LAIF) has not sought or received a credit rating. In these cases, the purchaser is solely responsible for performing their own due diligence before purchasing an investment or participating in an external investment pool. Certificates of deposit of \$250,000 or less are fully insured by the Federal Deposit Insurance Corporation (FDIC), and therefore, do not seek a credit rating.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures (Continued)

Disclosures Related to Credit Risk (Continued)

Presented on the following is the minimum rating required by (where applicable) the Government Code, the Investment Policy, or the debt agreements, and the actual rating as of year-end for each investment type as well as the fair value measurements of investments recognized in the accompanying statement of net position measured at fair value on a recurring basis and the level within GASB 72's fair value hierarchy in which the fair value measurements fall at June 30, 2016.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End	
			AAA/AA+	Not Rated
Investments:				
Local Agency Investment Fund (LAIF)	\$ 23,890,024	N/A	\$ -	\$ 23,890,024
California Asset Management Program	1,003,469	N/A	1,003,469	-
Money Market Mutual Funds	470	AAA	470	-
Certificates of Deposit	4,004,129	N/A	-	4,004,129
Corporate Medium Term Notes	-	A	-	-
US Treasury Securities	28,266,327	N/A	28,266,327	-
U.S. Government Sponsored Enterprise Securities	49,467,284	N/A	49,467,284	-
Total Investments	106,631,703		78,737,550	27,894,153
Investments with Fiscal Agents:				
Guaranteed Investment Contracts	619,500	N/A	-	619,500
Money Market Mutual Funds	4,443,278	AAA	-	4,443,278
Total Investments with Fiscal Agents	5,062,778		-	5,062,778
Total	\$ 111,694,481		\$ 78,737,550	\$ 32,956,931

Disclosures Relating to Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated in the Gov't Code. GASB Statement No. 40 requires disclosure by amount and issuer, of investments in any one issuer that represent 5% or more of total investments. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of the City's total investments are as follows:

Issuer	Investment Type	Fair Value
Federal National Mortgage Association	U.S. Government Sponsored Enterprise Securities	\$ 20,315,280
Federal Home Loan Mortgage Corporation	U.S. Government Sponsored Enterprise Securities	\$ 10,056,680
Federal Home Loan Bank	U.S. Government Sponsored Enterprise Securities	\$ 15,077,864
Local Agency Investment Fund (LAIF)	California Pooled Investment Fund	\$ 23,890,024

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 3 – Cash and Investments (Continued)

D. Risk Disclosures (Continued)

Disclosures Relating to Custodial Credit Risk

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 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 investments.

E. Investments in State Investment Pool – Local Agency Investment Fund

The City's investments with the Local Agency Investment Fund (LAIF) include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- Structured Notes - 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 a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of our position in the pool is the same as the value of the pool shares.

As of June 30, 2016, the City had \$23,890,024 invested in LAIF, which had invested 2.81% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.000621222 was used to calculate the fair value of the investment in LAIF.

F. Investment in California Asset Management Program (CAMP)

The City is a voluntary participant in CAMP, a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers. The Pool is required to maintain an average maturity of less than 60 days, and is rated AAAM by Standard & Poor's national rating agency. As of June 30, 2016, the City had \$1,003,469 invested in CAMP.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 4 – Receivables

At June 30, 2016, receivables consisted of the following:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts receivable	\$ 640,520	\$ 2,450,117	\$ 3,090,637
Taxes and assessments receivable	330,159	165,758	495,917
Accrued revenues	4,802,169	9,185	4,811,354
Loans receivable	948,633	-	948,633
Total	<u>\$ 6,721,481</u>	<u>\$ 2,625,060</u>	<u>\$ 9,346,541</u>

Loans receivable consist of loans to developers and loans to employees for the purchase of computer equipment, a program approved by the City Council to promote more efficient use of technology.

Note 5 – Investment in Joint Ventures

Investment in joint ventures (See Note 2G) is reported as *other noncurrent assets* in the Statement of Net Position, consists of the following as of June 30, 2016:

Cardiff Sanitary Division	San Elijo Joint Facilities	\$ 18,446,627
San Dieguito Water District	R.E. Badger Joint Facilities	19,015,947
San Dieguito Water District	R.E. Badger Financing Authority	764,192
		<u>19,780,139</u>
Encinitas Sanitary Division	Encina Joint Facilities	<u>3,937,430</u>
Total Investment in Joint Ventures		<u>\$ 42,164,196</u>

A. Cardiff Sanitary Division

Investment in San Elijo Joint Powers Authority (CITY)

In 1964, Cardiff Sanitary Division (“CSD”) entered into an agreement with Solana Beach Sanitation District (“Solana Beach”) for the joint ownership, maintenance, operation, and use of a Wastewater Treatment Plant and Ocean Outfall (collectively, the "Joint Facilities"). In 1987, CSD and Solana Beach agreed to establish the San Elijo Joint Powers Authority (“SEJPA”), a separate legal entity whose function it is to manage and operate the Joint Facilities and to determine the joint and separate obligations of the members concerning the transmission, treatment, disposal, and reclamation of wastewater within the respective service territories. On June 30, 1988, CSD and Solana Beach each transferred all of their assets related to the Facilities in exchange for a 50% interest in SEJPA. The Ocean Outfall is jointly owned by SEJPA (21% interest) and the City of Escondido (79% interest).

SEJPA is responsible for the operations and maintenance of the Joint Facilities as well as the related administration. The operations and maintenance costs are allocated monthly and billed quarterly, based on the relative volume of flows after taking into account charges to other agencies that lease certain capacity rights and share in the costs of operations and maintenance. For the year ended June 30, 2016, CSD's share of those costs was \$1,250,059, which is reported as a component of "facility operations and maintenance" in the accompanying financial statements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 5 – Investments in Joint Ventures (Continued)

B. San Dieguito Water District

Investment in R.E. Badger Filtration Plant and related Facilities (the "Joint Facilities")

In 1967, SDWD entered into an agreement with Santa Fe Irrigation District ("Santa Fe") for the joint ownership, maintenance, operation, and use of a water treatment plant and various facilities for the storage and delivery of potable water. During the ensuing years, the SDWD and Santa Fe have added various facilities and improvements, which are owned in different percentages depending on the type of facility and the agreements in place. The ownership percentages of these Joint Facilities are described below:

<u>San Dieguito Water District</u>	<u>Santa Fe</u>	<u>Facilities</u>
45%	55%	Filtration Plant
31%	69%	Filtered Water Reservoir
39%	61%	Joint Pipeline
42%	58%	San Dieguito Water Reservoir

Santa Fe is responsible for the operations and maintenance of the Joint Facilities as well as the related administration. The operations and maintenance costs are allocated monthly on the basis of the water used by each district, and administrative costs are allocated based on an agreed-upon cost allocation plan. For the year ended June 30, 2016, SDWD's share of those was \$1,788,841, which is shown as "facility operations and maintenance" in the accompanying financial statements.

Investment in R.E. Badger Water Facilities Financing Authority (the "Financing Authority")

In 1999, SDWD and Santa Fe entered into a joint exercise of powers agreement and formed the Financing Authority to provide financing for the acquisition and construction of capital improvements related to the Joint Facilities. The Financing Authority subsequently issued revenue bonds for the purpose of funding those capital improvements. SDWD and Santa Fe are obligated under Installment Purchase Agreements to repay their proportionate shares of the long-term financing. The investment in the Financing Authority consists primarily of SDWD's share of the debt reserve funds held by a fiscal agent and unamortized bond discounts and issuance costs.

C. Encinitas Sanitary Division

Investment in Encina Water Pollution Control Facility (the "Joint Facilities")

ESD is one of six member agencies with an ownership interest in the Joint Facilities. ESD owns approximately 2.7% of the Joint Facilities, after adjusting for the construction and upgrades to the Joint Facilities, referred to a "Phase V improvements." This ownership percentage affords ESD treatment capacity rights of approximately 2.0 million gallons/day, which is in excess of current needs and sufficient to meet all projected future needs. The Encina Wastewater Authority (Encina) is responsible for the operations and maintenance of the Joint Facilities, as well as the related administration. The operations, maintenance, and administrative costs are allocated monthly on the basis of the relative flows of each member agency. For the year ended June 30, 2016, ESD's share of those costs was \$594,288, which is shown as "facility operations and maintenance" in the accompanying financial statements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 6 – Long-Term Receivables

At June 30, 2016 the City's long-term receivables consisted of the following:

Encinitas Ranch Town Center	\$	520,000	
Iris Apartments		428,633	
Total		948,633	

A. Encinitas Ranch Town Center

At June 30, 2016, the outstanding balance of the long-term receivable was \$520,000. This receivable is one of the results of the Encinitas Ranch Development Agreement that was executed between the City and the developer of the Encinitas Ranch planned community in 1994. Part of that agreement allowed the developer to apply up to 50% of the sales tax proceeds generated by the Encinitas Ranch Town Center towards the payment of CFD assessments during its first five years of operation. The funds were applied to CFD payments pursuant to this loan agreement for approximately two years, and then discontinued. The original loan amount was about \$1.3 million. The developer has been making interest and certain principal repayments, consistent with the contract terms, in the ensuing years. In 2011, the City Council approved an extension to the final maturity of the note by five years, to June 15, 2018. The balance at that time was approximately \$650,000. Simple interest is payable annually, with principal payments commencing in June 2016 and continuing through until June 2018 when the remaining balance is due and payable. The note is secured by the developer's share of the future net revenues of the Encinitas Ranch Golf Course, which substantially exceed the face value of the note.

B. Iris Apartments

On April 20, 2012, the City entered into a promissory note agreement with Iris Apartments in the amount of \$350,000, secured by a Deed of Trust on the project. The outstanding principal balance due the City bears simple interest at a rate of 6% per annum, commencing on the date of fund disbursement which was May 2012. Under the terms of the agreement, Iris Apartments is obligated to make annual payments of principal and interest in the amount equal to 50% of residual receipts, as defined in the promissory note agreement. All principal and unpaid interest will be due and payable on April 20, 2067. The outstanding principal and interest receivable at June 30, 2016 was \$428,633.

Note 7 – Other Assets

At June 30, 2016, the City has recorded other assets consisting of the following:

	Governmental Activities	Business-type Activities	Total
Other Assets:			
Prepaid pension side funds	\$ 3,325,189	\$ 981,523	\$ 4,306,712
Less: accumulated amortization	(2,992,671)	(883,368)	(3,876,039)
Total other assets	\$ 332,518	\$ 98,155	\$ 430,673

These amounts represent the related unamortized prepayment of its pension side fund obligations in 2007. The City elected to amortize over a 10-year period. For the year ended June 30, 2016, the amortization expense was \$332,519 for the governmental activities and \$98,152 for the business-type activities.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – Capital Assets

A. Governmental Activities

The summary of changes in governmental activities capital assets for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Deletions	Transfers/ Reclassification	Balance June 30, 2016
Capital assets, not being depreciated:					
Land	\$ 61,862,474	\$ -	\$ -	\$ -	\$ 61,862,474
Land easements	2,104,542	9,500	-	-	2,114,042
Construction in progress	9,959,944	5,226,128	-	(949,592)	14,236,480
Total capital assets, not being depreciated	73,926,960	5,235,628	-	(949,592)	78,212,996
Capital assets, being depreciated:					
Public facilities	100,192,351	-	-	197,611	100,389,962
Vehicles, equipment and machinery	9,245,293	425,195	(390,537)	-	9,279,951
Infrastructure	110,272,547	-	-	751,981	111,024,528
Total capital assets, being depreciated	219,710,191	425,195	(390,537)	949,592	220,694,441
Less accumulated depreciation					
Public facilities	(25,662,524)	(3,262,689)	-	-	(28,925,213)
Vehicles, equipment and machinery	(5,432,312)	(637,137)	390,537	-	(5,678,912)
Infrastructure	(43,787,363)	(2,607,877)	-	-	(46,395,240)
Total accumulated depreciation	(74,882,199)	(6,507,703)	390,537	-	(80,999,365)
Total capital assets being depreciated, net	144,827,992	(6,082,508)	-	949,592	139,695,076
Governmental activities capital assets, net	\$ 218,754,952	\$ (846,880)	\$ -	\$ -	\$ 217,908,072

Depreciation expense was charged to the functions/programs of the governmental activities as follows:

General government	\$ 1,452,692
Public safety	350,158
Public works	2,826,056
Parks and recreation	1,568,301
Internal service funds	310,496
Total depreciation expense	\$ 6,507,703

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 8 – Capital Assets (Continued)

B. Business-type Activities

The summary of changes in business-type activities capital assets for the year ended June 30, 2016 is as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers/ Reclassification</u>	<u>Balance June 30, 2016</u>
Capital assets, not being depreciated:					
Land easements	\$ 3,047,151	\$ 172,150	\$ -	\$ -	\$ 3,219,301
Public works facility right of use	3,378,700	-	-	-	3,378,700
Construction in progress	4,375,674	906,235	-	(587,313)	4,694,596
Total capital assets, not being depreciated	<u>10,801,525</u>	<u>1,078,385</u>	<u>-</u>	<u>(587,313)</u>	<u>11,292,597</u>
Capital assets, being depreciated:					
Structures and improvements	19,118,795	-	-	28,780	19,147,575
Collection and distribution	60,497,024	269,629	-	558,533	61,325,186
Machinery and equipment	2,381,068	53,744	(6,600)	-	2,428,212
Capacity Rights	323,190	-	-	-	323,190
Total capital assets, being depreciated	<u>82,320,077</u>	<u>323,373</u>	<u>(6,600)</u>	<u>587,313</u>	<u>83,224,163</u>
Less accumulated depreciation					
Structures and improvements	(4,986,387)	(418,575)	-	-	(5,404,962)
Collection and distribution	(29,834,608)	(868,874)	-	(609,295)	(31,312,777)
Machinery and equipment	(2,473,455)	(238,635)	6,600	609,295	(2,096,195)
Capacity rights	(125,505)	(6,464)	-	-	(131,969)
Total accumulated depreciation	<u>(37,419,955)</u>	<u>(1,532,548)</u>	<u>6,600</u>	<u>-</u>	<u>(38,945,903)</u>
Total capital assets being depreciated, net	<u>44,900,122</u>	<u>(1,209,175)</u>	<u>-</u>	<u>587,313</u>	<u>44,278,260</u>
Business-type activities capital assets, net	<u>\$ 55,701,647</u>	<u>\$ (130,790)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,570,857</u>

Depreciation expense was charged to the functions/programs of the business-type activities as follows:

Cardiff Sanitary Division	\$ 387,320
San Dieguito Water District	675,549
Encinitas Sanitary Division	369,141
Non-major Affordable Housing	100,538
Total	<u>\$ 1,532,548</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance			Balance June 30, 2016	Classification	
	July 1, 2015	Additions	Deletion		Due Within One Year	Due in More Than One Year
Governmental Activities:						
Capital Leases:						
2008 Civic Center Roof Replacement	\$ 1,261,575	\$ -	\$ (138,268)	\$ 1,123,307	\$ 143,417	\$ 979,890
2011 Fire Apparatus	498,147	-	(161,975)	336,172	166,015	170,157
2012 Fire Apparatus	353,750	-	(85,582)	268,168	87,458	180,710
2013 Fire Apparatus	400,242	-	(77,049)	323,193	78,520	244,673
Bonded Debt:						
1997 Civic Center COP's	1,150,000	-	(560,000)	590,000	590,000	-
2002 ABAG Financing	830,000	-	(265,000)	565,000	275,000	290,000
2006 Public Library Bonds	16,975,000	-	(16,975,000)	-	-	-
less: original issue discount	(220,000)	-	220,000	-	-	-
2010 Community Park Bonds	16,000,000	-	(735,000)	15,265,000	770,000	14,495,000
add: original issue premium	163,433	-	(10,777)	152,656	-	152,656
2013 Community Park Bonds	7,245,000	-	(325,000)	6,920,000	330,000	6,590,000
add: original issue premium	113,880	-	(8,760)	105,120	-	105,120
2014 Moonlight Beach Tower (Series A)	3,095,000	-	(65,000)	3,030,000	65,000	2,965,000
less: original issue discount	(55,141)	-	1,838	(53,303)	-	(53,303)
2014 Pacific View (Series B)	10,365,000	-	(200,000)	10,165,000	200,000	9,965,000
less: original issue discount	(230,486)	-	7,683	(222,803)	-	(222,803)
2015 Library Refunding Bonds	-	15,645,000	-	15,645,000	480,000	15,165,000
add: original issue premium	-	772,212	-	772,212	-	772,212
Subtotal of governmental capital leases and bonded debt	57,945,400	16,417,212	(19,377,890)	54,984,722	3,185,410	51,799,312
Claims payable	1,193,289	1,430,314	(1,034,383)	1,589,220	1,589,220	-
Compensated absences	2,101,928	4,442,733	(4,436,972)	2,107,689	2,107,689	-
Total governmental activities	61,240,617	22,290,259	(24,849,245)	58,681,631	6,882,319	51,799,312
Business-type Activities:						
2011 CSD Note Payable to SEJPA	2,627,419	-	(593,530)	2,033,889	612,192	1,421,697
add: original issue premium	206,405	-	(34,401)	172,004	-	172,004
2007 SDWD Note Payable Badger	5,130,000	-	(415,000)	4,715,000	440,000	4,275,000
2004 EHA Housing Note Payable	1,391,715	-	(60,306)	1,331,409	56,059	1,275,350
2014 SDWD Water Revenue Bonds	5,870,000	-	(570,000)	5,300,000	585,000	4,715,000
add: original issue premium	669,345	-	(74,372)	594,973	-	594,973
Subtotal of business-type bonded debt	15,894,884	-	(1,747,609)	14,147,275	1,693,251	12,454,024
Compensated absences (SDWD)	148,064	293,833	(280,587)	161,310	161,310	-
Compensated absences (Affordable Housing)	9,902	60,379	(59,593)	10,688	10,688	-
Total business-type activities	16,052,850	354,212	(2,087,789)	14,319,273	1,865,249	12,454,024
Total long-term obligations	\$ 77,293,467	\$ 22,644,471	\$ (26,937,034)	\$ 73,000,904	\$ 8,747,568	\$ 64,253,336

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities

2008 Civic Center Roof Replacement and Energy Optimization Project

On February 27, 2008, the City entered into a long-term lease arrangement with a financial institution to finance \$2,100,000 of the 2008 improvements to the Encinitas Civic Center. The lease has a term of fifteen (15) years, an interest rate of 3.69%, and semi-annual payments of \$91,778. The project was completed during fiscal year 2008-2009, and the final payment is due in fiscal year 2023. The total cost of the project was \$3,543,258.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 143,417	\$ 40,139	\$ 183,556
2018	148,758	34,798	183,556
2019	154,298	29,258	183,556
2020	160,045	23,511	183,556
2021	166,005	17,552	183,557
2022-2023	350,784	16,327	367,111
Total	<u>\$ 1,123,307</u>	<u>\$ 161,585</u>	<u>\$ 1,284,892</u>

2011 Fire Apparatus Lease

The City entered into a long-term lease arrangement in fiscal year 2010-11 to finance the purchase of a 2011 Pierce Arrow XT Aerial Tiller Truck for \$1,214,003. The lease has a term of seven years, an interest rate of 2.48%, and semi-annual payments of \$86,665. The lease is accounted for as a capital lease, as the City will be purchasing the unit for \$1.00 at the maturity of the lease in fiscal year 2018.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 166,015	\$ 7,314	\$ 173,329
2018	170,157	3,171	173,328
Total	<u>\$ 336,172</u>	<u>\$ 10,485</u>	<u>\$ 346,657</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2012 Fire Apparatus Lease

The City entered into a long-term lease arrangement in fiscal year 2011-12 to finance the purchase of a 2012 Pierce Arrow XT Pumper Truck for \$603,397. The lease has a term of seven (7) years with an interest rate of 2.18% and semi-annual payments of \$46,415. The lease is accounted for as a capital lease, as the City has the option to purchase the unit for \$1 at the maturity of the lease term in fiscal year 2019.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 87,458	\$ 5,372	\$ 92,830
2018	89,375	3,455	92,830
2019	91,335	1,496	92,831
Total	<u>\$ 268,168</u>	<u>\$ 10,323</u>	<u>\$ 278,491</u>

2013 Fire Apparatus Lease

The City entered into a long-term lease arrangement in fiscal year 2012-13 to finance the purchase of a 2012 Pierce Arrow XT Pumper Truck for \$559,653. The lease has a term of seven years, an interest rate of 1.91%, and annual payments of \$84,693. The lease is accounted for as a capital lease, as the City will be purchasing the unit for \$1.00 at the maturity of the lease in fiscal year 2020.

The annual debt service requirements for the lease outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 78,520	\$ 6,173	\$ 84,693
2018	80,020	4,673	84,693
2019	81,548	3,145	84,693
2020	83,105		83,105
Total	<u>\$ 323,193</u>	<u>\$ 13,991</u>	<u>\$ 337,184</u>

Capital assets and accumulated depreciation for assets held under capital leases are as follows:

	Cost	Accumulated Depreciation	Net Capital Assets
Public facilities	\$ 3,543,258	\$ (1,003,922)	\$ 2,539,336
Fire apparatus and equipment	2,377,053	(704,469)	1,672,584

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

1997 Refunding Certificates of Participation (COPs)-Series A (Encinitas Civic Center)

In December 1991, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 1991 Certificates of Participation-Series A totaling \$7,635,000, to purchase the site and existing improvements for the Encinitas Civic Center. In December 1997, the EPFA issued the 1997 Refunding Certificates of Participation-Series A totaling \$7,550,000, to refund all of the 1991 Certificates. The refunding qualified as an in-substance defeasance. Principal is due and payable annually in amounts ranging from \$505,000 to \$590,000. Interest is due and payable semi-annually with rates ranging from 3.70% to 5.05%. The final maturity of the issue is due and payable in fiscal year 2017. These certificates are subject to federal arbitrage requirements. The certificates are not subject to optional redemption prior to maturity.

The annual debt service requirements for the 1997 Certificates of Participation outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 590,000	\$ 14,750	\$ 604,750
Total	<u>\$ 590,000</u>	<u>\$ 14,750</u>	<u>\$ 604,750</u>

2002 Association of Bay Area Governments (ABAG) Lease Revenue Bonds

In July 2002, the City issued \$6,590,000 of Lease Revenue Bonds, Series 2002-1 through ABAG, a California Joint Powers Authority. The proceeds were utilized to retire the 1992 Certificates of Participation-Series B (Encinitas Civic Center) and four existing debt obligations (including one of the Encinitas Sanitary Division) and to provide funding for improvements to the Civic Center and the SDWD Water Utility meter exchange and automation program. The Bonds mature annually in amounts ranging from \$240,000 to \$290,000. Interest is due and payable semiannually at rates ranging from 3.00% to 4.65%. The final maturity of the issue is due and payable in fiscal year 2018. The bonds are subject to federal arbitrage requirements.

The Encinitas Sanitary Division and the San Dieguito Water District have repaid all of their obligations to the City under the agreement to advance funds. The remaining amounts payable are all attributable to the Civic Center funding.

The annual debt service requirements for the 2002 ABAG Lease Revenue Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 275,000	\$ 19,810	\$ 294,810
2018	290,000	6,743	296,743
Total	<u>\$ 565,000</u>	<u>\$ 26,553</u>	<u>\$ 591,553</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2002 Association of Bay Area Governments (ABAG) Lease Revenue Bonds (Continued)

The bonds are subject to optional redemption beginning in 2013 at the following respective redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed).

Redemption Period	Redemption Price
July 1, 2014 and thereafter	100%

2006 Lease Revenue Bonds (Public Library)

On October 1, 2006 the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2006 Lease Revenue Bonds - Series A (Library Construction Project) in the amount of \$20,000,000 to provide funds for the construction of a new 26,000 square foot public library. The bonds consist of \$10,405,000 of serial bonds and \$9,595,000 in term bonds. The serial bonds mature through 2026 in annual installments ranging from \$465,000 to \$755,000. The term bonds mature through 2037 and are subject to mandatory sinking fund requirements. Annual principal installments range from \$785,000 to \$1,155,000. Interest is due and payable semi-annually at rates ranging from 3.6% to 4.4%. The bonds were issued at a discount, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

The 2006 Lease Revenue Bonds were refunded in fiscal year 2016 via the issuance of the 2015 Library Refunding Bonds. The outstanding balance at June 30, 2016 is \$0.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2010 Lease Revenue Refunding Bonds (Park Project)

On September 1, 2010, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2010 Lease Revenue Refunding Bonds, Series A (Park Project) in the amount of \$19,530,000 to provide funds for the refinancing of its 2001 Lease Revenue Bonds, Series A. The bonds consist of \$15,675,000 of serial bonds and \$3,855,000 of term bonds. The serial bonds mature from 2011 to 2028 in annual installments ranging from \$625,000 to \$1,175,000. The term bond matures on April 1, 2031 and is subject to mandatory sinking fund requirements. Interest is due and payable semi-annually at rates ranging from 2.00% to 4.85%. The bonds were issued at a premium, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

The bonds maturing on or after April 1, 2018 are subject to optional redemption on any date after April 1, 2017, without premium.

The annual debt service requirements for the 2010 Lease Revenue Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 770,000	\$ 640,081	\$ 1,410,081
2018	810,000	601,581	1,411,581
2019	830,000	577,281	1,407,281
2020	855,000	552,381	1,407,381
2021	885,000	523,525	1,408,525
2022-2026	4,965,000	2,071,156	7,036,156
2027-2031	6,150,000	892,900	7,042,900
Total	<u>\$ 15,265,000</u>	<u>\$ 5,858,905</u>	<u>\$ 21,123,905</u>

2013 Lease Revenue Refunding Bonds (Public Park Construction Project)

On March 20, 2013, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2013 Lease Revenue Bonds, Series A (Public Park Construction Project) in the amount of \$7,865,000 to provide funds for the construction of capital improvements to the Encinitas Community Park. The bonds consist of \$7,865,000 of serial bonds, which mature annually through 2033 in installments ranging from \$305,000 to \$510,000. Interest is due and payable semi-annually at rates ranging from 2.00% to 3.00%. The bonds were issued at a premium, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2013 Lease Revenue Refunding Bonds (Public Park Construction Project) (Continued)

The annual debt service requirements for the 2013 Lease Revenue Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 330,000	\$ 185,644	\$ 515,644
2018	335,000	178,994	513,994
2019	345,000	172,194	517,194
2020	350,000	164,806	514,806
2021	360,000	156,818	516,818
2022-2026	1,940,000	634,928	2,574,928
2027-2031	2,255,000	324,075	2,579,075
2032-2034	1,005,000	30,375	1,035,375
Total	<u>\$ 6,920,000</u>	<u>\$ 1,847,834</u>	<u>\$ 8,767,834</u>

The bonds maturing on or after October 1, 2023 are subject to optional redemption on any date on or after October 1, 2022, without premium.

2014 Lease Revenue Bonds (Pacific View Property and Moonlight Beach Lifeguard Tower)

On November 26, 2014, the Encinitas Public Financing Authority (on behalf of the City of Encinitas) issued its 2014 Lease Revenue Bonds, Series A tax-exempt (Pacific View Property) and Series B taxable (Moonlight Beach Lifeguard Tower) in the amounts of \$3,095,000 and \$10,365,000, respectively, to provide funds for the purpose of financing the acquisition of a property known as the Pacific View Property and for improving the Moonlight Beach Lifeguard Tower. The bonds consist of \$3,350,000 of serial bonds and \$10,110,000 of term bonds. The serial bonds mature annually through 2030 in installments ranging from \$65,000 to \$245,000. The term bonds mature through 2045 and are subject to mandatory sinking requirements. Interest is due and payable semi-annually at rates ranging from 2.00% to 3.50%. The bonds were issued at a discount, which is being amortized over the life of the bonds on a straight-line basis in the government-wide financial statements. The bonds are subject to federal arbitrage requirements.

The annual debt service requirements for the 2014 Lease Revenue Bonds, Series A Moonlight Beach Tower bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 65,000	\$ 101,181	\$ 166,181
2018	65,000	99,881	164,881
2019	70,000	98,531	168,531
2020	70,000	97,131	167,131
2021	70,000	97,131	167,131
2022-2026	400,000	435,406	835,406
2027-2031	470,000	370,491	840,491
2032-2036	550,000	285,488	835,488
2037-2041	650,000	177,756	827,756
2042-2045	620,000	47,813	667,813
Total	<u>\$ 3,030,000</u>	<u>\$ 1,810,809</u>	<u>\$ 4,840,809</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

A. Governmental Activities (Continued)

2014 Lease Revenue Bonds (Pacific View Property and Moonlight Beach Lifeguard Tower)
(Continued)

The annual debt service requirements for the 2014 Lease Revenue Bonds, Series B Pacific View Property bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 200,000	\$ 442,628	\$ 642,628
2018	205,000	440,190	645,190
2019	205,000	436,603	641,603
2020	210,000	432,033	642,033
2021	215,000	426,556	641,556
2022-2026	1,195,000	2,023,841	3,218,841
2027-2031	1,450,000	1,766,841	3,216,841
2032-2036	1,820,000	1,395,188	3,215,188
2037-2041	2,330,000	887,000	3,217,000
2042-2045	2,335,000	240,875	2,575,875
Total	<u>\$ 10,165,000</u>	<u>\$ 8,491,755</u>	<u>\$ 18,656,755</u>

2015 Library Refunding Bonds

On September 1, 2015, the Encinitas Public Financing Authority issued \$15,645,000 of 2015 Lease Revenue Refunding Bonds to defease and refund on a current basis, all of the outstanding 2006 Library Bonds. The Bonds consist of serial bonds maturing from 2016 through 2036 in annual installments of \$480,000 to \$1,025,000. Interest is due and payable semi-annually at rates ranging from 2.5% to 5.0%. Annual debt service is approximately \$1,065,000 through 2036. The bonds are subject to federal arbitrage requirements. The aggregate debt service payments of the new debt are \$3,252,589 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the net present value of the old debt and new debt service payments) of approximately \$1,547,162.

The annual debt service requirements for the 2015 Library Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 480,000	\$ 579,931	\$ 1,059,931
2018	505,000	557,706	1,062,706
2019	530,000	531,831	1,061,831
2020	555,000	504,706	1,059,706
2021	580,000	476,331	1,056,331
2022-2026	3,355,000	1,918,931	5,273,931
2027-2031	3,980,000	1,267,481	5,247,481
2032-2036	4,635,000	594,131	5,229,131
2037	1,025,000	18,578	1,043,578
Total	<u>\$ 15,645,000</u>	<u>\$ 6,449,626</u>	<u>\$ 22,094,626</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

B. Business-Type Activities

2011 CSD Note Payable to San Elijo Joint Powers Authority (SEJPA)

On December 1, 2011, the City, on behalf of its members (the Cardiff Sanitary Division and the City of Solana Beach) refinanced all of its outstanding debt, including its 2003 refunding revenue bonds and a loan from the State of California. Information on the bond issuance itself is available through the SEJPA administrative offices. CSD is responsible, via a Third Amended and Restated Loan Agreement, for the repayment of \$4,341,362 of the total borrowing amount of \$9,235,000 (or approximately 47%.) Annual debt service is approximately \$690,000 through fiscal year 2019, with smaller repayments due in 2020 and 2021. The average rate on the borrowing is approximately 2.0%. The bonds were issued at a premium, which is being amortized over the life of the bonds on a straight-line basis. The issue also resulted in deferred refunding costs, which are also being amortized over the life of the bonds on a straight-line basis.

CSD has pledged its *net revenues* to pay for this outstanding obligation. *Net revenues* are defined as gross revenues less operations and maintenance costs, excluding depreciation, amortization and other non-cash type charges. CSD has covenanted to budget for *net revenues* each fiscal year of at least 110% of annual debt service. Total principal and interest remaining to be paid on the 2011 Note Payable as of June 30, 2016 is \$2,203,912. During the year ended June 30, 2016, principal and interest paid on the 2011 Note Payable was \$691,225 and net revenue was \$2,457,166, or 355% of annual debt service. Management of CSD believes it is in compliance with these covenants for fiscal year 2016.

The annual debt service requirements for the 2011 CSD Note Payable to San Elijo Joint Powers Authority outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 612,192	\$ 79,889	\$ 692,081
2018	640,352	55,402	695,754
2019	663,845	29,788	693,633
2020	57,500	3,234	60,734
2021	60,000	1,710	61,710
Total	<u>\$ 2,033,889</u>	<u>\$ 170,023</u>	<u>\$ 2,203,912</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

B. Business-Type Activities (Continued)

2007 SDWD Note Payable to R.E. Badger Water Facilities Financing Authority (WFFA)

On November 20, 2007, the WFFA, on behalf of its members (the Santa Fe Irrigation District and the San Dieguito Water District) issued \$20,685,000 of 2007 Water Revenue Refunding Bonds while concurrently redeeming all of its outstanding 1999 Water Revenue Bonds. Information on the bond issuance itself is available through the WFFA administrative offices. SDWD is responsible, via an Amended and Restated Loan Agreement, for the repayment of \$7,705,000 of the total borrowing. Principal is due and payable annually in amounts ranging from \$335,000 to \$620,000. Interest is due and payable semi-annually at rates ranging from 3.5% to 4.5%. Annual debt service is approximately \$630,000 through fiscal year 2028.

The annual debt service requirements for the 2007 SDWD Note Payable to R.E. Badger Water Facilities Financing Authority outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 440,000	\$ 191,244	\$ 631,244
2018	455,000	171,619	626,619
2019	475,000	152,919	627,919
2020	490,000	133,619	623,619
2021	525,000	111,465	636,465
2022-2025	2,330,000	210,304	2,540,304
Total	<u>\$ 4,715,000</u>	<u>\$ 971,170</u>	<u>\$ 5,686,170</u>

Pledged Revenues

SDWD has pledged its *net revenues* to pay the debt service on these two obligations. *Net revenues* are defined as gross revenues less operations and maintenance costs, excluding depreciation, amortization and other non-cash type charges. Total principal and interest outstanding of the above mentioned debts as of June 30, 2016, is \$7,890,082. During the year ended June 30, 2016 principal and interest paid was \$1,317,369 and net revenue was \$4,331,948, or 309% of annual debt service. SDWD has covenanted to budget for *net revenues* each fiscal year of at least 115% of combined annual debt service. SDWD's management believes it is in compliance with these covenants for fiscal year 2016.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 9 – Long-Term Obligations (Continued)

B. Business-Type Activities (Continued)

2004 Encinitas Housing Authority (EHA) Note Payable

In 2004, the EHA secured a note payable with a financial institution of \$1,905,338 to partially fund the acquisition of 16 affordable housing units. The note is secured only by the rental income generated by the housing units. Principal and interest is due and payable monthly. Annual principal installments range from \$52,417 in 2014 to \$74,562 in 2034. The note bears interest at 90% of the ten-year US Treasury note, adjustable every six years. The EHA is solely responsible for repayment on this note.

The annual debt service requirements for the 2004 Encinitas Housing Authority Note Payable outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 56,059	\$ 44,206	\$ 100,265
2018	57,976	42,289	100,265
2019	59,958	40,307	100,265
2020	61,904	38,361	100,265
2021	64,125	36,140	100,265
2022-2026	354,972	146,352	501,324
2027-2031	419,989	81,336	501,325
2032-2034	256,427	12,796	269,223
Total	<u>\$ 1,331,410</u>	<u>\$ 441,787</u>	<u>\$ 1,773,197</u>

2014 SDWD Water Revenue Refunding Bonds

On September 18, 2014, SDWD issued \$5,870,000 of Water Revenue Refunding Bonds, Series 2014, to defease and refund on a current basis, all of the outstanding 2004 Water Revenue Refunding Bonds. The Bonds consist of serial bonds maturing from 2016 through 2024 in annual installments of \$570,000 to \$755,000. Interest is due and payable semi-annually at rates ranging from 3.0% to 4.0%. Annual debt service is approximately \$780,000 through 2024. The bonds are subject to federal arbitrage requirements. The aggregate debt service payments of the new debt are \$2,012,280 less than the old debt. The issuance of the new debt and refunding of the old debt resulted in an economic gain (the difference between the net present value of the old debt and new debt service payments) of approximately \$780,873.

The annual debt service requirements for the 2014 SDWD Water Refunding Bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 585,000	\$ 185,075	\$ 770,075
2018	605,000	167,225	772,225
2019	625,000	148,775	773,775
2020	645,000	126,500	771,500
2021	665,000	100,300	765,300
2022-2025	2,175,000	132,900	2,307,900
Total	<u>\$ 5,300,000</u>	<u>\$ 860,775</u>	<u>\$ 6,160,775</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 10 – Interfund Receivables, Payable and Transfers

A. Due To and From Other Funds

Individual interfund receivables and payables at June 30, 2016, were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Funds:		
General Fund	\$ 2,516,638	\$ -
Capital Improvements Capital Projects Fund	8,200,603	-
Nonmajor Governmental Funds	-	10,021,780
Internal Service Funds	-	629,851
Enterprise Funds:		
Nonmajor Affordable Housing Enterprise Fund	-	65,610
Total	<u>\$ 10,717,241</u>	<u>\$ 10,717,241</u>

The amounts due to the General Fund are all short-term borrowings in anticipation of grant revenue not yet received or for debt service payments.

The amounts due to the Capital Improvements Capital Projects fund represent grant revenues due from other funds.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 10 – Interfund Receivables, Payable and Transfers (Continued)

B. Transfers In and Out

Transfers in and out between funds for the year ended June 30, 2016, were as follows:

	Transfers Out					
	General Fund	Capital Improvement Capital Projects	Nonmajor Governmental Funds	Nonmajor Recreation	Internal Service Funds	Total All Funds
Transfers In						
Major Governmental Funds:						
General Fund	\$ -	\$ -	\$ 1,056,453	\$ 462,721	\$ -	\$ 1,519,174
Capital Improvement Capital Project Fund	17,003,668	445,559	20,198,316	-	-	37,647,543
Nonmajor Governmental Funds	5,383,529	-	-	-	-	5,383,529
Nonmajor Affordable Housing Enterprise Fund	63,609	-	-	-	-	63,609
Internal Service Funds	1,397,257	-	29,053	-	113,000	1,539,310
Total	\$ 23,848,063	\$ 445,559	\$ 21,283,822	\$ 462,721	\$ 113,000	\$ 46,153,165

Transfers in to the General Fund consist of funds from two of the City's development impact fee funds for qualified costs incurred, or to be incurred in the future years, by the General Fund for the construction of public facilities. In addition, the City now accounts for all street maintenance expenditures in the Streets Division budget unit within the General Fund, and transfers all State Gasoline Tax operating revenues from the Infrastructure Improvements special revenue fund to the General Fund.

Transfers in to the Capital Improvement Capital Projects Fund represent funds from other governmental funds for capital expenditures.

Transfers in to the Special Revenue funds represent the General Fund subsidy for the Senior Nutrition Program and the General Fund contribution to the Coastal Zone Management fund, which is included in the Grants and Housing special revenue fund.

Transfers in to the Debt Service funds represent the amounts being transferred to the City's general debt service fund and the Encinitas Public Financing Authority debt service fund to pay for the City's various debt service obligations.

Transfers in to the Internal Service Funds represent the City's annual contribution from the General Fund to the Risk Management fund. The contribution is not mandated and is established by the City Council during the annual budget process.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 11 – Fund Balance and Net Position Classifications

The City classifies fund balances, as shown on the *Balance Sheet - Governmental Funds* as of June 30, 2016 as follows:

	Major Funds			Totals
	General Fund	Capital Improvements Capital Projects Fund	Other Governmental Funds	
Nonspendable:				
Inventory and prepaid items	\$ 227,781	\$ -	\$ 287,756	\$ 515,537
Other assets	332,518	-	-	332,518
Computer loans	29,125	-	-	29,125
Long-term receivable	520,000	-	-	520,000
Total nonspendable	1,109,424	-	287,756	1,397,180
Restricted:				
Street maintenance and improvements	-	-	85,252	85,252
Cable Franchise PEG funds	-	-	175,020	175,020
Environmental initiatives	-	-	1,869,253	1,869,253
Affordable housing	-	-	1,309,543	1,309,543
Donations	-	-	128,690	128,690
Parkland and open space	-	-	2,080,419	2,080,419
Traffic mitigation	-	-	1,361,916	1,361,916
Flood control	-	-	332,131	332,131
Lighting and landscaping assessments	-	-	1,967,800	1,967,800
Law enforcement	-	-	124,406	124,406
Sand management	-	-	689,190	689,190
Debt service	-	-	2,286,436	2,286,436
Other	-	-	111,331	111,331
Total restricted	-	-	12,521,387	12,521,387
Committed:				
Capital projects	-	1,626,219	-	1,626,219
Total committed	-	1,626,219	-	1,626,219
Assigned:				
Capital projects	-	24,776,682	-	24,776,682
Total assigned	-	24,776,682	-	24,776,682
Unassigned	31,775,120	-	(8,215,735)	23,559,385
Total Fund Balances	\$ 32,884,544	\$ 26,402,901	\$ 4,593,408	\$ 63,880,853

City of Encinitas
Notes to Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 11 – Fund Balance and Net Position Classifications (Continued)

Categorization of Reserves under Adopted City Policies

All unassigned amounts in the City's General Fund are considered reserves under internal City policies. The City maintains three separate and distinct reserves:

- 1) ***Contingency Reserve*** – represents funds that are set-aside for use only in exceptional circumstances such as catastrophic events that could negatively impact the financial condition of the City. Funding represents 20% of the next year's operating expenditures, and no drawdowns have ever been executed on this reserve. City Policy requires a 4/5 vote of the City Council to authorize draws on this reserve. The amount of the contingency reserve as of June 30, 2016 was \$11,822,489.
- 2) ***Budget Stabilization Reserve*** – was established in 2007 to help mitigate potential fluctuations in operating revenues, or to fund unanticipated operating expenditures. Funding levels are mandated at 2% to 5% of the next year's budgeted operating revenues. Any changes to the level of funding for this reserve also require a 4/5 vote of the City Council. In practice, this reserve has been funded within the established range since 2007, and changes are made during the annual budget process. The amount of the budget stabilization reserve as of June 30, 2016 was \$1,357,873.
- 3) ***General Undesignated Reserve*** – this reserve represents any remaining unassigned fund balance after funding levels have been established for (1) and (2) above. These funds may be allocated in any manner the City Council designates. The amount of the general undesignated reserve as of June 30, 2016 was \$18,594,758.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Risk Management

A. City of Encinitas - Risk Management and Insurance Programs

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 has a proactive in-house risk management program, which combines risk mitigation initiatives with a self-insurance program and excess coverage policies with outside providers.

The City maintains a self-insurance fund to finance and account for its self-insured risks of loss. The Risk Management fund is accounted for as an Internal Service fund. It is supported by interfund charges for workers compensation coverage, unemployment insurance, and contributions from CSD, ESD and the City. The Risk Management fund strives to maintain an adequate net position, over time, to cover all known and reported claims, as well as an adequate reserve for incurred but not reported (IBNR) claims.

The City is self-insured for liability claims and losses up to \$500,000 per occurrence, and for worker's compensation claims and losses up to \$350,000 per occurrence.

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) which covers any liability claims or losses above the \$500,000 self-insured level. SANDPIPA is a separate legal entity formed by the participating municipalities to provide pooled excess liability insurance coverage to its members. The members do not hold any ownership stake in SANDPIPA and have no claims to revenue or assets upon withdrawal, at which time the purchase of tail coverage is required. SANDPIPA is governed by a Board of Directors, who determines policy and necessary funding levels, including retroactive adjustments for over-or under-funding, which is reflected as adjustments to current year premiums. The City is covered for losses between \$500,000 and \$2,500,000 by the SANDPIPA reserve pool. The members share the risk of claims in excess of reserves. For claims incurred after July 1, 1992, member expenses are included in the self-insurance reserve for purposes of calculating pooled coverage. Excess liability insurance coverage is provided for losses between \$2,500,000 and \$47,000,000 via excess insurers.

The City is a member of the Local Agency Workers Compensation Excess (LAWCX), a California Joint Powers Insurance Authority. LAWCX provides coverage for claims between \$350,000 and \$5,000,000. Excess worker's compensation coverage between \$5,000,000 and statutory limits is provided through contract reinsurance. City departments contribute premiums to the self-insurance fund based on annual rates set for each work class.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 12 – Risk Management (Continued)

A. City of Encinitas - Risk Management and Insurance Programs (Continued)

Changes in the balances of claims payable for liability and workers compensation during the past two years are as follows:

	Year Ended June 30, 2016	Year Ended June 30, 2015
Claims payable, beginning of year	\$ 1,193,289	\$ 607,546
Estimated incurred claims, net	1,430,314	972,064
Claims payments or closures	(1,034,383)	(386,321)
Claim payable, end of year	\$ 1,589,220	\$ 1,193,289

B. San Dieguito Water District (SDWD) - Risk Management and Insurance Programs

Risk management programs and support for SDWD are provided by the City of Encinitas Risk Management Department, for which SDWD pays the City an annual fee (charge for those services.)

SDWD is a member of the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA), which provides coverage for general liability, property and casualty, and workers' compensation. As of June 30, 2016, in the opinion of the District's management and general counsel, there were no material claims which would require accrual in the accompanying financial statements. Management has determined, based on modest self-insurance retention levels and favorable claims experience, that no self-insurance liabilities were necessary. SDWD has no outstanding claims as of June 30, 2016, and did not pay any claims during the fiscal year.

Note 13 – Commitments and Contingencies

A. Lawsuits

Numerous claims and suits have been filed against the City in the normal course of conducting City business. Based upon information received from the City Attorney and the self-insurance administrator, the estimated liability under such claims would be adequately covered by the deposits paid to SANDPIPA or LAWCX for self-insurance and insurance coverage (See Note 12).

B. Grants

Amounts received or receivable from federal and state granting agencies are subject to audit and adjustment by grantor agencies. While no matters of noncompliance were disclosed by the audit of the financial statements or Single Audit of the Federal grant 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 a material adverse effect on the financial position of the City.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 13 – Commitments and Contingencies (Continued)

C. Construction Commitments

As of June 30, 2016, the City had remaining contractual commitments totaling nearly \$2.9 million for capital projects related to its governmental and business-type activities. The more significant capital commitments include approximately \$409,000 related to monitoring and assessment of the Carlsbad Municipal Water Authority, \$536,000 related to the Olivenhain Trunk Sewer Design project, \$303,000 related to the Montgomery Avenue At-Grade Pedestrian Design project, \$586,000 related to the North Coast Highway 101 Streetscape Design project, \$262,000 related to the Annual Street Overlay project, and \$200,000 related to the City-wide Sewer Rehab Design project.

Note 14 – California Public Employees’ Retirement System

A. Summary

Aggregate Net Pension Liability

Aggregate net pension liability is reported in the accompanying Statement of Net Position as follows:

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 20,300,216	\$ -
CalPERS Miscellaneous Plan - SDWD	-	5,019,493
CalPERS Safety Plan	14,576,416	-
Total	<u>\$ 34,876,632</u>	<u>\$ 5,019,493</u>

Deferred Outflows of Resources

Deferred outflows of resources are reported in the accompanying Statement of Net Position as follows:

Deferred Pension Contributions Made after the Measurement Date

	Governmental Activities	Business-Type Activities
CalPERS Miscellaneous Plan - City	\$ 2,927,539	\$ -
CalPERS Miscellaneous Plan - SDWD	-	598,690
CalPERS Safety Plan	1,609,491	-
Total	<u>\$ 4,537,030</u>	<u>\$ 598,690</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

A. Summary (Continued)

Deferred Outflows of Resources (Continued)

Difference between Expected and Actual Experience

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - City	\$ -	\$ -
CalPERS Miscellaneous Plan - SDWD	-	17,389
CalPERS Safety Plan	-	-
Total	<u>\$ -</u>	<u>\$ 17,389</u>

Deferred Change in Plan Proportion

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - City	\$ -	\$ -
CalPERS Miscellaneous Plan - SDWD	-	224,552
CalPERS Safety Plan	-	-
Total	<u>\$ -</u>	<u>\$ 224,552</u>

Deferred Inflows of Resources

Deferred inflows of resources are reported in the accompanying Statement of Net Position as follows:

Difference Between Projected and Actual Earnings on Pension Plan Investments

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - City	\$ 360,398	\$ -
CalPERS Miscellaneous Plan - SDWD	-	82,471
CalPERS Safety Plan	383,127	-
Total	<u>\$ 743,525</u>	<u>\$ 82,471</u>

Difference between Expected and Actual Experience

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - City	\$ 90,464	\$ -
CalPERS Miscellaneous Plan - SDWD	-	-
CalPERS Safety Plan	164,363	-
Total	<u>\$ 254,827</u>	<u>\$ -</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

A. Summary (Continued)

Deferred Inflows of Resources (Continued)

Changes in Assumptions

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - City	\$ 1,169,826	\$ -
CalPERS Miscellaneous Plan - SDWD	-	164,511
CalPERS Safety Plan	755,964	-
Total	<u>\$ 1,925,790</u>	<u>\$ 164,511</u>

Change in Plan Proportions

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - SDWD	\$ -	\$ -
CalPERS Safety Plan	1,799,335	-
Total	<u>\$ 1,799,335</u>	<u>\$ -</u>

Difference between Employer Contributions and the Proportionate Share of Contributions

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - SDWD	\$ -	\$ 40,455
CalPERS Safety Plan	720,785	-
Total	<u>\$ 720,785</u>	<u>\$ 40,455</u>

Pension Expense

Pension expenses are included in the accompanying Statement of Revenues, Expenses, and Changes in Net Position as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
CalPERS Miscellaneous Plan - City	\$ 1,807,304	\$ -
CalPERS Miscellaneous Plan - SDWD	-	647,683
CalPERS Safety Plan	1,266,490	-
Total	<u>\$ 3,073,794</u>	<u>\$ 647,683</u>

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District)

The City has the following California Public Employees’ Retirement Plans:

1. The Miscellaneous Plan of the City of Encinitas (Miscellaneous Plan)
2. The Safety Plan of the City of Encinitas (Safety Plan)
 - a. Fire Plan of the City of Encinitas
 - b. Lifeguard Plan of the City of Encinitas

Plan Descriptions

Miscellaneous Plan

The City of Encinitas has entered into separate defined benefit pension plans covering miscellaneous and safety employees with the California Public Employees’ Retirement System (CalPERS). CalPERS is an agent multiple-employer public employee defined benefit pension plan. The plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plans are administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees’ Retirement Law. The City selects optional benefit provisions from the benefit menu by contract and adopts those benefits through local ordinances. A full description of the pension plans regarding number of employees covered, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2015 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.”

Safety Plan

The *Safety Plan* is a cost-sharing multiple employer defined benefit plan in which the City participates with other public agencies that each have fewer than 100 active members and share the same benefit formula and includes both fire and lifeguard employees and retirees. The Safety Plan is administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Safety Plan are established by State statutes within the Public Employee’s Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees' Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Benefits Provided

The City's *Miscellaneous Plan* is an agent multiple-employer Plan that is part of the Public Agency's portion of CalPERS. The *Miscellaneous Plan* provides employees hired before October 13, 2012 with a Tier 1 benefit equal to 2.7% at 55 years of age, calculated based on the single highest year of qualifying compensation. As of October 13, 2012, the City Council imposed new terms and conditions on the miscellaneous employees which created a new benefit formula for employees hired after the effective date of the change (the "Tier 2 miscellaneous plan".) Employees hired under the Tier 2 miscellaneous plan receive a lower benefit formula, referred to as the 2% at 60 year of age formula. In addition, legislation enacted by the State of California applying to all local units of government, referred to as the Public Employees' Pension Reform Act (PEPRA) which became effective on January 1, 2013, created yet another benefit formula for new hires with no experience or prior service credit with CalPERS. In the case of the City, this will constitute a "Tier 3 miscellaneous plan" which provides a retirement benefit, referred to as the 2% at 62 years of age formula. The actual retirement benefit for Tier 2 and Tier 3 miscellaneous employees will be calculated using the average of the highest 36 consecutive months of qualifying compensation.

The City's *Safety Plan* provides Fire Department employees hired before June 23, 2012 with a Tier 1 benefit equal to 3.0% at 55 years of age, calculated based on the single highest year of qualifying compensation. Effective June 23, 2012, the Encinitas Firefighters Association executed a new four year Memorandum of Understanding (MOU) with the City that provides for modifications to the pension benefit formula for employees hired on or after the effective date (the "Tier 2 fire safety plan".) The 3.0% at 55 year of age formula is maintained, but the actual retirement benefit will be calculated using the average of the highest 36 consecutive months of qualifying compensation. In addition, the PEPRA legislation, created yet another benefit formula for new hires with no experience or prior service credit with CalPERS. In the case of the City, this will constitute a "Tier 3 fire safety plan" which provides a retirement benefit, referred to as the 2.7% at 57 years of age formula. This plan also utilizes the mandated method of calculation based on the average of the highest 36 consecutive months of qualifying compensation.

The City's *Safety Plan* also provides lifeguard employees hired before October 13, 2012 with a Tier 1 benefit equal to 3.0% at 55 years of age, calculated based on the single highest year of qualifying compensation. The lifeguards have Tier 2 and Tier 3 (PEPRA) plans which are identical to the *Fire Plan* described above. For the measurement period July1, 2014 through June 30, 2054, Tier 2 employees were grouped with Tier 1 employees because there was no separate Tier 2 actuarial study performed at the June 30, 2014 valuation date.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms for the City’s plans:

	City Miscellaneous	City Safety
Active employees	159	58
Inactive employees or beneficiaries currently receiving benefits	132	72
Inactive employees entitled to, but not yet receiving benefits	82	42
Total	373	172

Contributions

City Miscellaneous Plan

Employee Contributions

Active City Tier 1 miscellaneous members are required to contribute 8% of their annual covered salary (the "employee contribution"). Effective October 13, 2012, all City Tier 1 miscellaneous members contribute the full 8%, which is credited to their individual accounts. Members receiving the Tier 2 or Tier 3 benefits are required to contribute 7% of their annual covered salary. The employee contribution requirements are established by State statute.

Employer Contributions

The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contributions"). The employer contribution rate for fiscal year 2015-2016 was 20.676% for miscellaneous members. The employer contribution rates are calculated and established annually by CalPERS, based on the actuarial methods and assumptions as adopted by the CalPERS Board of Administration.

For the measurement year ended June 30, 2015, contributions were:

Contributions - employees	\$ 776,061
Contributions - employer	2,077,263

City Safety Plan

Active fire and lifeguard members are required to contribute 9% of their annual covered salary (the "employee contribution"). The City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contributions"). The employer contribution rates for fiscal year 2015-2016 ranged from 11.777% to 31.056% for fire members and from 10.845% to 19.954% for lifeguard members. The employer contribution rates are calculated and established annually by CalPERS, based on the actuarial methods and assumptions adopted by the CalPERS Board of Administration.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Contributions (Continued)

City Safety Plan (Continued)

For the year ended June 30, 2015, the plan’s proportionate share of aggregate employer contributions made for the Safety Plan was as follows:

	Safety Plan
Contributions - employer	\$ 1,251,594

Net Pension Liability

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation.
Mortality Rate Table	Derived using CalPERS’ Membership Data for all Funds. 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.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS’ website under “Forms and Publications.”

Change of Assumption

In accordance with GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent, which is net of administrative expenses. 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, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.50 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 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. These geometric rates of return are net of administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Discount Rate (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11 + ²
Global equity	50.00%	5.25%	5.71%
Global fixed income	17.00%	0.99%	2.43%
Inflation sensitive	4.00%	0.45%	3.36%
Private equity	14.00%	6.83%	6.95%
Real estate	11.00%	4.50%	5.13%
Infrastructure and forestland	0.00%	4.50%	5.09%
Liquidity	4.00%	-0.55%	-1.05%

¹ An expected inflation of 2.5% was used for this period.

² An expected inflation of 3.0% was used for this period.

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

The following presents the net pension liability of the Miscellaneous Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate:

	Plan's Net Pension Liability/(Asset)		
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
City Miscellaneous	\$ 32,997,803	\$ 20,300,216	\$ 9,856,995
City Safety	23,371,000	14,576,416	7,365,018

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Changes in the Net Pension Liability

The following tables show the changes in the net pension liability recognized over the measurement period for the City Miscellaneous Plan:

	Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2014 (Valuation Date)	\$ 84,925,420	\$ 67,193,378	\$ 17,732,042
Changes Recognized for the Measurement Period:			
Service Cost	2,261,277	-	2,261,277
Interest on the total pension liability	6,333,421	-	6,333,421
Changes of benefit terms	-	-	-
Difference between expected and actual experience	(126,649)	-	(126,649)
Changes of assumptions	(1,637,757)	-	(1,637,757)
Plan to plan resource movement	-	126,193	(126,193)
Contributions from the employer	-	2,077,263	(2,077,263)
Contributions from employees	-	776,061	(776,061)
Net investment income, net of administrative expense	-	1,359,388	(1,359,388)
Benefit payments, including refunds of employee contributions	(3,003,676)	(3,003,676)	-
Administrative expense	-	(76,787)	76,787
Net Changes during July 1, 2014 to June 30, 2015	<u>\$ 3,826,616</u>	<u>\$ 1,258,442</u>	<u>\$ 2,568,174</u>
Balance at June 30, 2015 (Measurement Date)	<u>\$ 88,752,036</u>	<u>\$ 68,451,820</u>	<u>\$ 20,300,216</u>

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Safety Plan is as follows:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Balance at: 6/30/14 (Valuation date)	\$ 77,006,084	\$ 62,697,310	\$ 14,308,774
Balance at: 6/30/15 (Measurement date)	80,116,793	65,540,377	14,576,416
Net changes during 2014-2015	3,110,709	2,843,067	267,642

The City’s net pension liability for the Safety Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

Changes in the Net Pension Liability (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

The City’s proportionate share of the net pension liability for the Safety Plan as of June 30, 2015 was as follows:

	Safety Plan
Proportion June 30, 2015	<hr/> 0.35376%

Pension Plan Fiduciary Net Position

Detailed information about the Miscellaneous and Safety Plans’ fiduciary net position is available in the separately issued CalPERS financial report.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

B. City of Encinitas (not including the San Dieguito Water District) (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$1,807,304 for the Miscellaneous Plan and \$1,266,490 for the Safety Plan.

At June 30, 2016, the City reported deferred outflows resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan		Total	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Difference between expected and actual experience	\$ -	\$ (90,464)	\$ -	\$ (164,363)	\$ -	\$ (254,827)
Changes of assumptions	-	(1,169,826)	-	(755,964)	-	(1,925,790)
Net difference between projected and actual earning on pension plan investments	-	(360,398)	-	(383,127)	-	(743,525)
Difference between employer's actual contributions and proportionate share of contributions	-	-	-	(720,785)	-	(720,785)
Adjustments due to difference in proportions	-	-	-	(1,799,335)	-	(1,799,335)
Total	\$ -	\$ (1,620,688)	\$ -	\$ (3,823,574)	\$ -	\$ (5,444,262)

The \$4,537,030 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30	Deferred Outflows/ (Inflows) of Resources	Deferred Outflows/ (Inflows) of Resources	Deferred Outflows/ (Inflows) of Resources
	Miscellaneous Plan	Safety Plan	Total
2016	\$ (872,892)	\$ (1,482,091)	\$ (2,354,983)
2017	(872,892)	(1,499,519)	(2,372,411)
2018	(620,835)	(1,312,277)	(1,933,112)
2019	745,931	470,313	1,216,244
2020	-	-	-
Thereafter	-	-	-

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees' Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan)

Plan Description

The *SDWD Plan* is a cost-sharing multiple employer defined benefit plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries, in which the City participates with other public agencies that each have fewer than 100 active members and share the same benefit formula. The Plan is administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statutes within the Public Employee's Retirement Law. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, CA 95814.

Benefits Provided

The *SDWD Plan* provides employees hired before October 13, 2012 with a Tier 1 benefit equal to 2.7% at 55 years of age, calculated based on the single highest year of qualifying compensation. As of October 13, 2012, the Board of Directors imposed new terms and conditions which created a new benefit formula for employees hired after the effective date of the change (the "Tier 2 Plan"). Employees hired under the Tier 2 Plan receive a lower benefit formula, referred to as the 2% at 60 years of age formula. In addition, PEPR created yet another benefit formula for new hires with no experience or prior service credit with CalPERS. In the case of the District, this will constitute a "Tier 3 Plan" which provides a retirement benefit, referred to as the 2% at 62 years of age formula. The actual retirement benefit for Tier 2 and Tier 3 employees will be calculated using the average of the highest 36 consecutive months of qualifying compensation.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Employees Covered by Benefit Terms

At June 30, 2016, the following employees were covered by the benefit terms for the SDWD plan:

	SDWD Plan
Active employees	23
Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to, but not yet receiving benefits	5
Total	60

Contributions

Active members in the Tier 1 Plan are required to contribute 8% of their annual covered salary (the "employee contribution"). Effective October 13, 2012, all Tier 1 members contribute the full 8%, which is credited to their individual accounts. Members receiving the Tier 2 or Tier 3 benefits are required to contribute 7% and 6.25% of their annual covered salary, respectively. The employee contribution requirements are established by State statute.

SDWD is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members (the "employer contributions"). The employer contribution rate for fiscal year 2015-2016 ranged from 6.223% to 25.636%. The employer contribution rates are calculated and established annually by CalPERS, based on the actuarial methods and assumptions as adopted by the CalPERS Board of Administration.

For the year ended June 30, 2016, the SDWD Plan’s proportionate share of aggregate employer contributions made for each plan was as follows:

	SDWD Plan
Contributions - employer	\$ 356,509

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported net pension liabilities for its proportionate shares of the net pension liability of the SDWD Plan as follows:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Plan Net Pension Liability/(Asset)
Balance at: 6/30/14 (Valuation date)	\$ 22,268,743	\$ 18,489,458	\$ 3,779,285
Balance at: 6/30/15 (Measurement date)	21,378,148	16,358,655	5,019,493
Net changes during 2014-2015	(890,595)	(2,130,803)	1,240,208

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

The City’s net pension liability for the SDWD Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan’s proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool’s fiduciary net position (“FNP”) subtracted from its total pension liability (“TPL”) determines the net pension liability (“NPL”) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool’s FNP at the measurement date denotes the aggregate risk pool’s FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).
- (3) The individual plan’s TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan’s individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool’s total TPL and FNP, respectively.
- (5) The plan’s TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan’s FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan’s NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources to Pensions (Continued)

The City’s proportionate share of the net pension liability for the SDWD Plan as of June 30, 2015 was as follows:

	SDWD Plan
Proportion June 30, 2015	0.0018296%

For the year ended June 30, 2016, the City recognized pension expense of \$647,683 for the SDWD Plan. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after the measurement date	\$ 598,690	\$ -
Difference between expected and actual experience	17,389	-
Changes of assumptions	-	(164,511)
Net difference between projected and actual earnings on pension plan investments	-	(82,471)
Difference between employer’s actual contributions and proportionate share of contributions	-	(40,455)
Adjustments due to difference in proportions	224,552	-
Total	\$ 840,631	\$ (287,437)

The \$598,690 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Period Ended June 30		
2016	\$	564,703
2017		(42,631)
2018		(74,297)
2019		105,419
2020		-
Thereafter		-

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table	Derived using CalPERS’ Membership Data for all Funds. 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.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS’ website under “Forms and Publications.”

Change of Assumption

In accordance with GASB 68, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.5% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent, which is net of administrative expenses. 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, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 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.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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 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. These geometric rates of return are net of administrative expenses.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 14 – California Public Employees’ Retirement System (Continued)

C. San Dieguito Water District Miscellaneous Plan (SDWD Plan) (Continued)

Discount Rate (Continued)

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11 +²</u>
Global equity	50.00%	5.25%	5.71%
Global fixed income	17.00%	0.99%	2.43%
Inflation sensitive	4.00%	0.45%	3.36%
Private equity	14.00%	6.83%	6.95%
Real estate	11.00%	4.50%	5.13%
Infrastructure and forestland	0.00%	4.50%	5.09%
Liquidity	4.00%	-0.55%	-1.05%

¹ An expected inflation of 2.5% was used for this period.

² An expected inflation of 3.0% was used for this period.

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

The following presents the City’s proportionate share of the net pension liability for each SDWD Plan, calculated using the discount rate for each SDWD Plan, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1%</u>	<u>Current Discount</u>	<u>Discount Rate + 1%</u>
	<u>(6.65%)</u>	<u>Rate (7.65%)</u>	<u>(8.65%)</u>
SDWD Plan	\$ 8,418,040	\$ 5,019,493	\$ 2,213,598

Pension Plan Fiduciary Net Position

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

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB)

The City of Encinitas and the San Dieguito Water District maintain separate plans to provide for post-retirement health care benefits. An actuarial report is prepared every two years to update plan information and assumptions (when required). The latest actuarial valuation was prepared for June 30, 2015, and applies to fiscal years 2015-16 and 2016-17.

A. City of Encinitas Retiree Health Plan

Plan Description

The City provides postretirement health care benefits through the Public Employees Medical and Hospital Care Act (PEMHCA), which is a health benefit plan administered by CalPERS, to eligible employees who retire directly from the City. The City pays the cost for lifetime retiree and dependent medical benefits (average premium for CalPERS health plans available in San Diego County) for fire department employees hired before March 16, 1995. Other City retirees receive the PEMHCA minimum benefit, as determined by CalPERS. The City does not provide a retiree contribution for dental, vision, or life insurance benefits. The City's OPEB plan does not issue a separate stand-alone report.

The City has elected to join the *California Employers' Retiree Benefit Trust* (the "Trust") in accordance with GASB Statement No. 45, which provides a means to fund the annual OPEB costs, referred to as the *Annual Required Contribution* (ARC). The City makes an annual contribution to the Trust, pays benefits either directly to retirees or through PEMHCA during the year, and then seeks reimbursement for these "pay-as-you-go expenses" from the Trust.

Funding Policy and Actuarial Methods and Assumptions

It is the City's policy to fully fund the ARC each fiscal year. The actual contributions of the City to the Trust are established by action of the City Council. The contribution requirements were established via an actuarial valuation of the City's Retiree Healthcare Plan as of June 30, 2015, performed in conformity with the requirements of GASB Statement No. 45.

The following key assumptions were utilized in developing the June 30, 2015 actuarial valuation:

1. The actuarial cost method used to determine the benefit obligations is the Entry Age Normal cost method.
2. The ARC is comprised of the present value of benefits in the current fiscal year (normal cost with interest) plus a 26-year amortization (on a level-percentage of basis) of the unfunded actuarial accrued liability.
3. The valuation reflects updated census and premium information, as well as changes to the demographic tables, reflecting the recent experience study published by CalPERS.
4. The investment rate of return assumption is 7.28%.
5. The expected future medical price inflation trend ranges from 5.0 to 7.5%.
6. Core inflation rate of 3.0%.
7. Payroll increases of 3.0% per annum, in aggregate.
8. Projected salary increases are based on merit increase data from the most recent CalPERS Pension Plan Study using the average pay increase based on the employee's date of hire.
9. Participation levels for safety personnel eligible for lifetime medical benefits is assumed to be 100%, while participation levels for miscellaneous employees who receive the CalPERS minimum required contribution is 50%, based on experience.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB) (Continued)

A. City of Encinitas Retiree Health Plan (Continued)

Annual Required Contribution (ARC) and OPEB Cost Summary

The ARC for fiscal year 2016 of approximately \$560,000 represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a maximum of 30 years. The City contributed the ARC to the Trust and received reimbursement for actual pay-as-you-expenses incurred during the year.

The City's annual OPEB costs, the percentage of annual OPEB cost contributed, and the resulting net OPEB obligation for the preceding three years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 785,000	100%	\$ -
June 30, 2015	544,000	100%	-
June 30, 2016	560,000	100%	-

Funded Status and Funding Progress

The following table summarizes the funding status of the City's Retiree Health Plan from most recent actuarial valuations:

Actuarial Valuation Date	Actuarial Assets Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Estimated Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30, 2015	\$ 2,915,458	\$ 12,060,155	\$ 9,144,697	24.17%	\$ 18,533,738	49.34%

B. San Dieguito Water District – Retiree Health Plan

The San Dieguito Water District maintains a separate plan to provide for post-retirement health care benefits. An actuarial report is prepared every two years to update plan information and assumptions (when required). The latest actuarial valuation was prepared for June 30, 2015, and applies to fiscal years 2015-16 and 2016-17.

Plan Description

SDWD provides postretirement health care benefits through the Public Employees Medical and Hospital Care Act (PEMHCA), which is a health benefit plan administered by CalPERS, to eligible employees who retire directly from SDWD. Retirees receive the PEMHCA minimum benefit, as determined by CalPERS. SDWD does not provide a retiree contribution for dental, vision, or life insurance benefits. SDWD's OPEB plan does not issue a separate stand-alone report.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB) (Continued)

B. San Dieguito Water District – Retiree Health Plan (Continued)

Plan Description (Continued)

SDWD has elected to join the *California Employers' Retiree Benefit Trust* (the "Trust") in accordance with GASB Statement No. 45, which provides a means to fund the annual OPEB costs, referred to as the *Annual Required Contribution* (ARC). SDWD makes its annual contribution to the Trust, pays benefits either directly to retirees or through PEMHCA during the year, and then seeks reimbursement for these "pay-as-you-go expenses" from the Trust.

Funding Policy and Actuarial Methods and Assumption

It is SDWD's policy to fully fund the ARC each fiscal year. The actual contributions of SDWD to the Trust are established by action of the Board of Directors. The contribution requirements were established via an actuarial valuation of the SDWD's Retiree Healthcare Plan as of June 30, 2015, performed in conformity with the requirements of GASB Statement No. 45.

The following key assumptions were utilized in developing the June 30, 2013 actuarial valuation:

1. The actuarial cost method used to determine the benefit obligations is the Entry Age Normal cost method.
2. The ARC is comprised of the present value of benefits in the current fiscal year (normal cost with interest) plus a 26-year amortization (on a level-percentage of basis) of the unfunded actuarial accrued liability.
3. The valuation reflects updated census and premium information, as well as changes to the demographic tables, reflecting the recent experience study published by CalPERS.
4. The investment return assumption by the Trust is 7.28%.
5. The expected future medical price inflation trend ranges from 5.0 to 7.5%.
6. Core inflation rate of 3.0%.
7. Payroll increases of 3.0% per annum, in aggregate.
8. Projected salary increases are based on merit increase data from the most recent CalPERS Pension Plan Study using the average pay increase based on the employee's date of hire.
9. Participation levels for safety personnel eligible for lifetime medical benefits is assumed to be 100%, while participation levels for miscellaneous employees who receive the CalPERS minimum required contribution is 50%, based on experience.

Annual Required Contribution (ARC) and OPEB Cost Summary

The ARC for fiscal year 2016 of \$28,794 represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liability over a maximum of 30 years. SDWD contributed the ARC to the Trust and received reimbursement for actual pay-as-you-expenses incurred during the year.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 15 – Other Postemployment Benefits (OPEB) (Continued)

B. San Dieguito Water District – Retiree Health Plan (Continued)

Annual Required Contribution (ARC) and OPEB Cost Summary (Continued)

SDWD's annual OPEB costs, the percentage of annual OPEB cost contributed, and the resulting net OPEB obligation for the preceding three years were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 31,000	100%	\$ -
June 30, 2015	29,000	100%	-
June 30, 2016	28,794	100%	-

Funded Status and Funding Progress

The following table summarizes the funding status of SDWD's Retiree Health Plan from most recent actuarial valuations. The latest information available on the funding status comes from the actuarial valuation dated June 30, 2015, projected to June 30, 2016.

Actuarial Valuation Date	Actuarial Assets Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Estimated Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30, 2015	\$ 111,363	\$ 484,247	\$ 372,884	23.00%	\$ 1,767,898	21.09%

General Information regarding Actuarial Valuations Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood between the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the plan members at that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

The Schedule of Funding Progress for the City and SDWD retiree health care plans are presented as Required Supplementary Information following the Notes to the Basic Financial Statements. These schedules show multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 16 – Encinitas Ranch Golf Authority

The Encinitas Ranch Golf Authority (the “Golf Authority”) is a joint powers authority, formed by the City and SDWD in 1995 to finance, own, and operate an 18-hole golf course (the “Golf Course”) within the City. The Golf Course was constructed in connection with the development of the Encinitas Ranch master-planned community (the “Ranch”). The Ranch is a mixed-use community of residential, commercial and agricultural development within the City. As a condition to the development of the Ranch, the Caritas Company (the “Developer”), agreed to dedicate land for and construct the Golf Course improvements. The Golf Course opened to the public on March 1, 1998, and is managed and operated under a contract arrangement with a private company.

The Golf Authority is governed by a five-member Board of Directors, the membership of which is specified in the 1994 Encinitas Ranch Development Agreement. It is a self-sustaining golf course operation and receives no financial support from the City or SDWD. In future years, depending on the net revenues from golf operations, the City may benefit financially from the operations.

However, this is unlikely until at least 2030, when the Golf Course bonded debt is expected to be paid off. The debts and obligations of the Golf Authority are not the debts and obligations of the City or SDWD. Separate audited financial statements of the Golf Authority are available at the City's administrative office.

Note 17 – Special Assessment Debt

A. City of Encinitas - Community Facilities District (CFD) #1: Encinitas Ranch Community

During fiscal year 2013-2014, the City, on behalf of the residents and businesses of the CFD #1, refunded all of the outstanding bonds of the 2004 Special Tax Bonds, Series A, via a current refunding transaction. The CFD #1 issued \$32,265,000 par value of 2012 Special Tax Refunding Bonds (Encinitas Ranch Public Improvements), at lower interest rates, while maintaining the same general terms and conditions, including the final maturity date of September 1, 2030. The transaction will save the taxpayers an average of \$170,000 in annual debt service, or about 6% of the average annual debt service of the prior bonds.

As of June 30, 2016, the outstanding balance on the 2012 Special Tax Refunding Bonds was \$28,350,000. The City acts solely as an agent for CFD #1. The City has no duty or obligation to pay any liabilities or potential liabilities of the district. Neither the full faith and credit, nor the taxing power of the City or any other City related agency, is pledged to the repayment of these 2012 Special Tax Refunding Bonds. Therefore, such bonds are not considered to be a liability of the City and are not included in the accompanying basic financial statements.

B. City of Encinitas – Assessment District 93-1: Requeza Street/Bracero Road

During fiscal year 1997-1998, the City, acting as the agent for the Requeza Assessment District (“District”), issued \$1,356,400 of limited obligation bonds to finance and pay for infrastructure improvements to the District. The bonds were issued in two series.

City of Encinitas
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2016

Note 17 – Special Assessment Debt (Continued)

B. City of Encinitas – Assessment District 93-1: Requeza Street/Bracero Road (Continued)

Series A:

The Series A bonds were issued as tax-exempt obligations totaling \$945,000 principal which were sold to the public. The bonds mature serially through 2017 and are being repaid by special assessments paid by the landowners. The remaining bonds have an average interest rate of 6.9%. At June 30, 2016, the outstanding balance was paid in full.

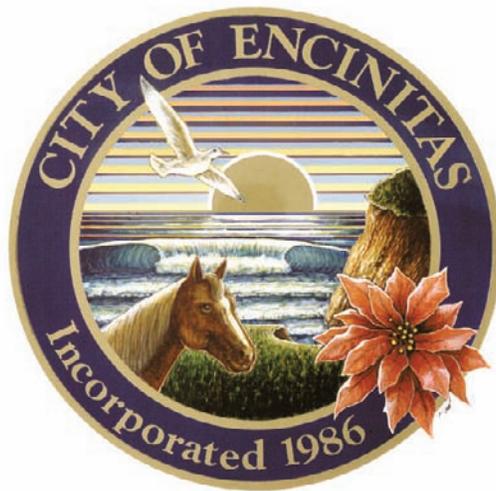
Series B:

The Series B bonds were issued as taxable obligations totaling \$411,000 principal and were sold directly to the City of Encinitas. The Series B bonds have since been fully repaid.

City of Encinitas – Duties and Responsibilities

The City acts as the agent for both of these Assessment Districts, collecting the assessments and paying the Districts' bills, as well as other administrative duties. The City has no duty or obligation to pay any liabilities or potential liabilities of the Districts. Neither the full faith and credit, nor the taxing power of the City or any other City related agency, is pledged in connection with these bond issues. Therefore, such bonds are not considered to be a liability of the City and are not included in the accompanying basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION



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City of Encinitas
Required Supplementary Information
For the Year Ended June 30, 2016

Note 1 – Budgetary Information

Budget and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information and other supplementary information budgetary comparison schedules:

The City Council adopts a two year operating budget, with appropriations for the first year only. The annual budget provides for the general operations of the City. It includes all proposed expenditures and inter-fund transfers, and the means of financing them. The Council also approves any amendments to appropriations throughout the year, generally at the mid-year budget review in February. This “appropriated budget” covers substantially all City expenditures, with the exception of capital improvement projects, which expenditures constitute a legally authorized “non-appropriated budget.” The legal level of budgetary control is the fund level. The budget figures used in the required supplementary information are both original and final budgeted amounts. The final budget amount includes any amendments adopted during the year.

Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations which are unencumbered lapse at year end. City Council approval is required to include any unencumbered appropriations at year end in the following fiscal year’s budget as continuing appropriations.

Budget for the General and special revenue funds are adopted on a basis substantially consistent with accounting principles generally accepted in the United States of America. Accordingly, actual revenue and expenditures can be compared with related budgeted amounts without any significant reconciling items. No budgetary comparisons are presented for the debt service, capital projects, or proprietary funds, as the City is not legally required to adopt an annual budget for those types of funds.

Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. Further, Section 5 of Article XIII B allows the City to designate a portion of fund balance for general contingencies to be used in future years without limitation.

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 2 – Budgetary Comparison Schedule

General Fund

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 38,078,376	\$ 39,170,487	\$ 39,700,730	\$ 530,243
Real property transfer	500,000	500,000	637,189	137,189
Sales	13,685,188	13,785,188	14,166,771	381,583
Franchise	2,197,000	2,197,000	2,358,567	161,567
Transient occupancy	1,502,000	1,502,000	1,616,172	114,172
Total taxes	55,962,564	57,154,675	58,479,429	1,324,754
Licenses and permits	250,000	250,000	232,227	(17,773)
Intergovernmental	500,679	987,034	801,966	(185,068)
Charges for services	6,627,762	6,383,627	6,585,518	201,891
Fines, forfeitures and penalties	674,750	734,750	889,388	154,638
Use of money and property	426,547	591,547	972,663	381,116
Other	590,000	596,300	779,892	183,592
Total revenues	65,032,302	66,697,933	68,741,083	2,043,150
EXPENDITURES:				
General government:				
City Council	447,633	471,133	399,509	71,624
Community enhancement	179,238	223,704	194,021	29,683
City Attorney	375,500	375,500	375,391	109
City Manager	4,455,369	4,164,732	3,787,886	376,846
City Clerk	564,535	564,535	514,669	49,866
Finance	1,809,212	1,809,212	1,639,391	169,821
Non-departmental	1,571,656	2,021,803	2,185,307	(163,504)
Total general government	9,403,143	9,630,619	9,096,174	534,445
Public safety:				
Law enforcement	13,048,100	13,098,100	12,761,949	336,151
Fire and marine safety	14,222,456	14,276,169	14,013,171	262,998
Total public safety	27,270,556	27,374,269	26,775,120	599,149
Public works:				
Administration	223,739	223,739	158,319	65,420
Environmental programs	3,600	3,600	3,428	172
Street maintenance	1,866,578	1,912,914	1,849,973	62,941
Facility maintenance	1,225,331	1,272,106	1,227,411	44,695
Stormwater	860,577	865,479	731,793	133,686
Total public works	\$ 4,179,825	\$ 4,277,838	\$ 3,970,924	\$ 306,914

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 2 – Budgetary Comparison Schedule (Continued)

General Fund (Continued)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Planning and building:				
Planning	2,684,559	2,693,132	2,571,549	121,583
Code enforcement	682,818	717,568	607,306	110,262
Building services	1,803,290	1,803,290	1,718,102	85,188
Total planning and building	<u>5,170,667</u>	<u>5,213,990</u>	<u>4,896,957</u>	<u>317,033</u>
Engineering services:				
City engineering	2,734,927	2,893,225	2,632,541	260,684
Traffic engineering	699,875	705,357	681,387	23,970
Stormwater	826,943	807,860	764,913	42,947
Total engineering services	<u>4,261,745</u>	<u>4,406,442</u>	<u>4,078,841</u>	<u>327,601</u>
Parks and recreation:				
Administration	983,017	1,030,779	984,194	46,585
Park services	1,795,302	1,797,327	1,738,782	58,545
Beach services	506,932	530,038	495,356	34,682
Recreational trails	128,969	129,254	117,300	11,954
Recreational services	658,021	658,021	576,629	81,392
Community and senior center	2,257,639	2,282,639	2,199,818	82,821
Total parks and recreation	<u>6,329,880</u>	<u>6,428,058</u>	<u>6,112,079</u>	<u>315,979</u>
Capital outlay	-	-	-	-
Debt service:				
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>56,615,816</u>	<u>57,331,216</u>	<u>54,930,095</u>	<u>2,401,121</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>8,416,486</u>	<u>9,366,717</u>	<u>13,810,988</u>	<u>4,444,271</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property	-	-	-	-
Transfers in - operating	1,184,360	1,174,360	1,056,452	(117,908)
Transfers in - capital	-	462,722	462,722	-
Transfers out - operating	(2,646,724)	(2,870,990)	(2,849,747)	21,243
Transfers out - capital	(4,969,090)	(16,065,203)	(16,003,668)	61,535
Transfers out - debt service	(4,994,187)	(4,994,187)	(4,994,648)	(461)
Total other financing sources (uses)	<u>(11,425,641)</u>	<u>(22,293,298)</u>	<u>(22,328,889)</u>	<u>(35,591)</u>
NET CHANGE IN FUND BALANCE	(3,009,155)	(12,926,581)	(8,517,901)	4,408,680
Fund balance - beginning of year	41,402,445	41,402,445	41,402,445	-
Fund balance - end of year	<u>\$ 38,393,290</u>	<u>\$ 28,475,864</u>	<u>\$ 32,884,544</u>	<u>\$ 4,408,680</u>

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 3 – Schedule of Changes in the Net Pension Liability and Related Ratios

Last Ten Fiscal Years*
City Miscellaneous Plan

Total Pension Liability	2014-15	2013-14
Service cost	\$ 2,261,277	\$ 2,448,194
Interest on total pension liability	6,333,421	5,943,955
Differences between expected and actual experience	(126,649)	-
Changes in assumptions	(1,637,757)	-
Changes in benefit terms	-	-
Benefit payments, including refunds of employee contributions	(3,003,676)	(2,990,732)
Net change in total pension liability	3,826,616	5,401,417
Total pension liability - beginning	84,925,420	79,524,003
Total pension liability - ending (a)	\$ 88,752,036	\$ 84,925,420
Plan fiduciary net position		
Contributions - employer	\$ 2,077,263	\$ 2,278,140
Contributions - employee	776,061	1,043,925
Investment income (net of administrative expenses)	1,359,388	9,816,151
Benefit payments	(3,003,676)	(2,990,732)
Other	49,406	-
Net change in plan fiduciary net position	1,258,442	10,147,484
Plan fiduciary net position - beginning	67,193,378	57,045,894
Plan fiduciary net position - ending (b)	\$ 68,451,820	\$ 67,193,378
Net pension liability - ending (a)-(b)	\$ 20,300,216	\$ 17,732,042
Plan fiduciary net position as a percentage of the total pension liability	77.13%	79.12%
Covered-employee payroll	\$ 12,951,932	\$ 13,022,309
Net pension liability as a percentage of covered-employee payroll	156.74%	136.17%

Notes to Schedule:

Changes in assumptions. The discount rate was changed from 7.5% (net of administrative expenses) to 7.65%.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 4 – Schedule of the City's Proportionate Share of the Net Pension Liability

Last Ten Fiscal Years* Safety Plan	2014-2015 ¹	2013-2014 ¹
Plan's proportion of the net pension liability	0.00354%	0.00230%
Plan's proportionate share of the net pension liability	\$ 14,576,416	\$ 14,308,774
Plan's covered-employee payroll ²	\$ 5,671,755	\$ 5,115,288
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll	257.00%	279.73%
Plan's fiduciary net position	\$ 65,540,377	\$ 62,697,310
Plan's fiduciary net position as a percentage of the total pension liability	81.81%	81.42%
Plan's proportionate share of aggregate employer contributions ^{3,4}	\$ 5,671,755	\$ 1,775,034

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2016 was the first year of implementation, therefore only two years are shown.

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

⁴ This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 4 – Schedule of the City's Proportionate Share of the Net Pension Liability (Continued)

Last Ten Fiscal Years*
San Dieguito Water District Plan

	2014-2015 ¹	2013-2014 ¹
Plan's proportion of the net pension liability	0.0018296%	0.0006074%
Plan's proportionate share of the net pension liability	\$ 5,019,493	\$ 3,779,285
Plan's covered-employee payroll ²	\$ 1,756,033	\$ 1,712,639
Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll	285.84%	220.67%
Plan's fiduciary net position	\$ 16,358,655	\$ 18,489,458
Plan's fiduciary net position as a percentage of the total pension liability	76.52%	83.03%
Plan's proportionate share of aggregate employer contributions ^{3, 4}	\$ 565,860	\$ 499,985

Notes to Schedule:

Benefit changes. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2016 was the first year of implementation, therefore only two years are shown.

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

³ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

⁴ This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 5 – Schedule of Contributions

Last Ten Fiscal Years*
City Miscellaneous Plan

	2015-16 ¹	2014-15 ¹	2013-14 ¹
Actuarially determined contribution	\$ 2,927,539	\$ 1,815,263	\$ 2,278,140
Contributions in relation to the actuarially determined contributions ²	(2,927,539)	(2,077,263)	(2,278,140)
Contribution deficiency (excess)	\$ -	\$ (262,000)	\$ -
Covered-employee payroll ^{3, 4}	\$ 13,340,490	\$ 12,951,932	\$ 13,022,309
Contributions as a percentage of covered-employee payroll ³		16.04%	17.49%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

⁴ Payroll from prior year (\$12,951,932) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2014 6/30/2013

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2013-14 were from the June 30, 2011 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2012 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2012 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 5 – Schedule of Contributions (Continued)

Last Ten Fiscal Years*
Safety Plan

	2015-16 ¹	2014-15 ¹	2013-14 ¹
Contractually determined contribution (actuarially determined)	\$ 1,609,491	\$ 1,251,594	\$ 1,209,864
Contributions in relation to the actuarially determined contributions ²	(1,609,491)	(1,251,594)	(1,209,864)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered-employee payroll ^{3,4}	\$ 5,841,908	\$ 5,671,755	\$ 5,154,534
Contributions as a percentage of covered-employee payroll ³	27.55%	22.07%	23.47%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

⁴ Payroll from prior year (\$5,671,755) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2014 6/30/2013

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

**City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016**

Note 5 – Schedule of Contributions (Continued)

**Last Ten Fiscal Years*
San Dieguito Water District Plan**

	<u>2015-16</u> ¹	<u>2014-15</u> ¹	<u>2013-14</u> ¹
Contractually determined contribution (actuarially determined)	\$ 356,509	\$ 271,845	\$ 241,133
Contributions in relation to the actuarially determined contributions ²	(356,509)	(271,845)	(241,133)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll ^{3,4}	\$ 1,808,714	\$ 1,756,033	\$ 1,712,639
Contributions as a percentage of covered-employee payroll ³	19.71%	15.48%	14.08%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

⁴ Payroll from prior year (\$1,756,033) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule

Valuation date: 6/30/2014 6/30/2013

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method/period	For details, see June 30, 2011 Funding Valuation Report
Asset valuation method	Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report.
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

* - Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

City of Encinitas
Required Supplementary Information (Continued)
For the Year Ended June 30, 2016

Note 6 – Schedules of Funding Progress – Other Postemployment Benefits

A. Other Postemployment Benefits (OPEB) – City’s Plan

Actuarial Valuation Date	Actuarial Assets Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30, 2011	\$ 1,960,000	\$ 10,506,000	\$ 8,546,000	18.66%	\$ 18,252,000	46.82%
June 30, 2013	2,178,800	8,686,482	6,507,682	25.08%	18,135,000	35.88%
June 30, 2015	2,915,458	12,060,155	9,144,697	24.17%	18,533,738	49.34%

B. Other Postemployment Benefits (OPEB) – San Dieguito Water District’s Plan

Actuarial Valuation Date	Actuarial Assets Value	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30, 2011	\$ 65,000	\$ 343,000	\$ 278,000	18.95%	\$ 1,230,000	22.60%
June 30, 2013	68,176	484,247	416,071	14.08%	1,886,000	22.06%
June 30, 2015	111,363	484,247	372,884	23.00%	1,767,898	21.09%

SUPPLEMENTARY INFORMATION



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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

Infrastructure Improvements - This fund is used to account for financial resources from state and federal grants which are primarily to fund operations and capital improvements.

Grants and Housing - This fund is used to account for financial resources from state and federal grants that are utilized to fund various City programs such as affordable housing and law enforcement.

Development Impact - This fund is used to account for development impact/mitigation fees that are collected in connection with land use and construction applications. These monies are utilized to fund specified city capital improvement projects.

Lighting and Landscaping - This fund is used to account for special assessments and certain restricted property tax revenues collected from homeowners and businesses. These monies are utilized to fund specified operational and maintenance costs related to common area landscaping, street lighting, and park maintenance.

DEBT SERVICE FUNDS:

City Debt Service - This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of principal and interest on City long-term debt.

Encinitas Public Financing Authority - This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the payment of principal and interest on Encinitas Public Financing Authority long-term debt.

City of Encinitas
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2016

	Special Revenue			
	Infrastructure Improvements	Grants and Housing	Development Impact	Lighting and Landscaping
ASSETS				
Cash and investments	\$ 1,208,651	\$ 1,399,116	\$ 6,156,854	\$ 2,915,446
Receivables	557,764	225,282	-	37,021
Due from other funds	-	-	-	-
Other assets	-	-	-	-
Inventory and prepaids	-	-	-	-
Long-term receivable	-	194,466	234,167	-
Restricted cash and investments	-	-	-	-
Total assets	\$ 1,766,415	\$ 1,818,864	\$ 6,391,021	\$ 2,952,467
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 8,887	\$ 85,505	\$ -	\$ 231,072
Interest payable	-	-	-	-
Unearned revenue	118,211	-	-	-
Due to other funds	9,855,052	166,728	-	-
Deposits and other liabilities	-	-	15,463	-
Total liabilities	9,982,150	252,233	15,463	231,072
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	194,466	234,167	-
Total deferred inflows of resources	-	194,466	234,167	-
Fund Balances:				
Nonspendable	-	-	-	-
Restricted	-	1,372,165	6,141,391	2,721,395
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned (deficit)	(8,215,735)	-	-	-
Total fund balances	(8,215,735)	1,372,165	6,141,391	2,721,395
Total liabilities, deferred inflows of resources and fund balances	\$ 1,766,415	\$ 1,818,864	\$ 6,391,021	\$ 2,952,467

City of Encinitas
Combining Balance Sheet
Non-Major Governmental Funds (Continued)
June 30, 2016

	Debt Service		Total Other Governmental Funds
	City Debt Service	Encinitas Public Financing Authority	
ASSETS			
Cash and investments	\$ -	\$ 15,181	\$ 11,695,248
Receivables	-	-	820,067
Due from other funds	-	-	-
Other assets	-	-	-
Inventory and prepaids	287,756	-	287,756
Long-term receivable	-	-	428,633
Restricted cash and investments	504,199	2,054,812	2,559,011
Total assets	\$ 791,955	\$ 2,069,993	\$ 15,790,715
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued liabilities	\$ 287,756	\$ -	\$ 613,220
Interest payable	-	-	-
Unearned revenue	-	-	118,211
Due to other funds	-	-	10,021,780
Deposits and other liabilities	-	-	15,463
Total liabilities	287,756	-	10,768,674
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	-	428,633
Total deferred inflows of resources	-	-	428,633
Fund Balances:			
Nonspendable	287,756	-	287,756
Restricted	216,443	2,069,993	12,521,387
Committed	-	-	-
Assigned	-	-	-
Unassigned (deficit)	-	-	(8,215,735)
Total fund balances	504,199	2,069,993	4,593,408
Total liabilities, deferred inflows of resources and fund balances	\$ 791,955	\$ 2,069,993	\$ 15,790,715

(Concluded)

City of Encinitas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2016

	Special Revenue			
	Infrastructure Improvements	Grants and Housing	Development Impact	Lighting and Landscaping
REVENUES:				
Taxes and assessments	\$ 401,852	\$ 435,577	\$ -	\$ 2,008,450
Intergovernmental	4,954,647	932,862	-	-
Development impact fees	-	-	1,695,565	-
Use of money and property	4,442	65,042	73,905	67,420
Other	-	77,682	-	18,792
Total revenues	<u>5,360,941</u>	<u>1,511,163</u>	<u>1,769,470</u>	<u>2,094,662</u>
EXPENDITURES:				
Current:				
General government	-	192,053	-	-
Public safety	-	201,016	-	-
Public works	-	407,894	-	1,926,522
Planning and building	-	262,820	-	-
Engineering services	219,722	-	-	-
Parks and recreation	-	141,534	-	112,724
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	<u>219,722</u>	<u>1,205,317</u>	<u>-</u>	<u>2,039,246</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>5,141,219</u>	<u>305,846</u>	<u>1,769,470</u>	<u>55,416</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from bond issuance	-	-	-	-
Premium on bond issuance	-	-	-	-
Deposit to escrow for bond refunding	-	-	-	-
Transfers in	-	380,481	-	8,400
Transfers out	(14,599,417)	(1,763,798)	(4,736,731)	(183,876)
Total other financing sources (uses)	<u>(14,599,417)</u>	<u>(1,383,317)</u>	<u>(4,736,731)</u>	<u>(175,476)</u>
NET CHANGE IN FUND BALANCES	(9,458,198)	(1,077,471)	(2,967,261)	(120,060)
FUND BALANCES:				
Beginning of year	1,242,463	2,449,636	9,108,652	2,841,455
End of year	<u>\$ (8,215,735)</u>	<u>\$ 1,372,165</u>	<u>\$ 6,141,391</u>	<u>\$ 2,721,395</u>

City of Encinitas
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds (Continued)
For the Year Ended June 30, 2016

	Debt Service		Total Other Governmental Funds
	City Debt Service	Encinitas Public Financing Authority	
REVENUES:			
Taxes and assessments	\$ -	\$ -	\$ 2,845,879
Intergovernmental	-	-	5,887,509
Development impact fees	-	-	1,695,565
Use of money and property	580	38,678	250,067
Other	-	-	96,474
Total revenues	<u>580</u>	<u>38,678</u>	<u>10,775,494</u>
EXPENDITURES:			
Current:			
General government	-	-	192,053
Public safety	-	-	201,016
Public works	-	-	2,334,416
Planning and building	-	-	262,820
Engineering services	-	-	219,722
Parks and recreation	-	-	254,258
Debt service:			
Principal	403,268	2,380,000	2,783,268
Interest and fiscal charges	79,631	2,292,600	2,372,231
Total expenditures	<u>482,899</u>	<u>4,672,600</u>	<u>8,619,784</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(482,319)</u>	<u>(4,633,922)</u>	<u>2,155,710</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from bond issuance	-	15,645,000	15,645,000
Premium on bond issuance	-	772,212	772,212
Deposit to escrow for bond refunding	-	(16,820,243)	(16,820,243)
Transfers in	486,360	4,508,288	5,383,529
Transfers out	-	-	(21,283,822)
Total other financing sources (uses)	<u>486,360</u>	<u>4,105,257</u>	<u>(16,303,324)</u>
NET CHANGE IN FUND BALANCES	4,041	(528,665)	(14,147,614)
FUND BALANCES:			
Beginning of year	500,158	2,598,658	18,741,022
End of year	<u>\$ 504,199</u>	<u>\$ 2,069,993</u>	<u>\$ 4,593,408</u>

(Concluded)

City of Encinitas
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Infrastructure Improvements Special Revenue Fund
For the Year Ended June 30, 2016

	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES:			
Taxes and assessments	\$ 300,000	\$ 401,852	\$ 101,852
Intergovernmental	10,216,486	4,954,647	(5,261,839)
Use of money and property	-	4,442	4,442
Other	-	-	-
Total revenues	<u>10,516,486</u>	<u>5,360,941</u>	<u>(5,155,545)</u>
EXPENDITURES:			
Current:			
Engineering services	<u>238,599</u>	<u>219,722</u>	<u>18,877</u>
Total expenditures	<u>238,599</u>	<u>219,722</u>	<u>18,877</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>10,277,887</u>	<u>5,141,219</u>	<u>(5,136,668)</u>
OTHER FINANCING SOURCES (USES):			
Transfers out	<u>(14,748,650)</u>	<u>(14,599,417)</u>	<u>149,233</u>
Total other financing sources (uses)	<u>(14,748,650)</u>	<u>(14,599,417)</u>	<u>149,233</u>
NET CHANGE IN FUND BALANCE	<u>\$ (4,470,763)</u>	<u>(9,458,198)</u>	<u>\$ (4,987,435)</u>
FUND BALANCE:			
Beginning of year		<u>1,242,463</u>	
End of year		<u>\$ (8,215,735)</u>	

City of Encinitas
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Grants and Housing Special Revenue Fund
For the Year Ended June 30, 2016

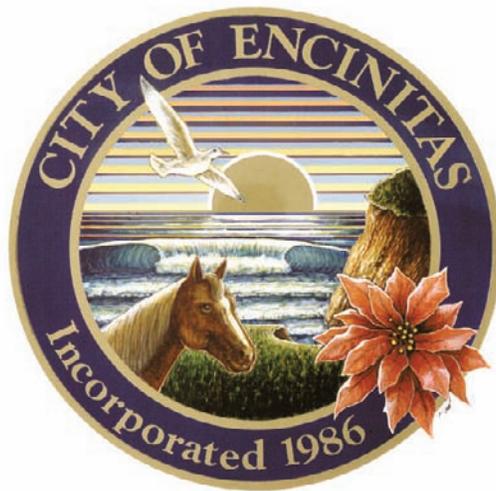
	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES:			
Taxes and assessments	\$ 425,895	\$ 435,577	\$ 9,682
Intergovernmental	1,260,923	932,862	(328,061)
Use of money and property	118,071	65,042	(53,029)
Total revenues	1,804,889	1,511,163	(293,726)
EXPENDITURES:			
Current:			
General government	337,345	192,053	145,292
Public safety	262,348	201,016	61,332
Public works	462,262	407,894	54,368
Planning and building	439,286	262,820	176,466
Parks and recreation	218,033	141,534	76,499
Total expenditures	1,719,274	1,205,317	513,957
REVENUES OVER (UNDER) EXPENDITURES	85,615	305,846	220,231
OTHER FINANCING SOURCES (USES)			
Transfers in	384,963	380,481	4,482
Transfers (out)	(1,763,798)	(1,763,798)	-
Total other financing sources (uses)	(1,378,835)	(1,383,317)	4,482
NET CHANGE IN FUND BALANCE	\$ (1,293,220)	(1,077,471)	\$ 215,749
FUND BALANCE:			
Beginning of year		2,449,636	
End of year		\$ 1,372,165	

City of Encinitas
Schedule of Revenues, Expenditures and Change in Fund Balance - Budget and Actual
Development Impact Special Revenue Fund
For the Year Ended June 30, 2016

	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES:			
Intergovernmental	\$ 165,553	\$ -	\$ (165,553)
Development impact fees	877,636	1,695,565	817,929
Use of money and property	38,679	73,905	35,226
Total revenues	1,081,868	1,769,470	687,602
 REVENUES OVER			
(UNDER) EXPENDITURES	1,081,868	1,769,470	687,602
 OTHER FINANCING SOURCES (USES)			
Transfers (out)	(4,705,403)	(4,736,731)	(31,328)
Total other financing sources (uses)	(4,705,403)	(4,736,731)	(31,328)
 NET CHANGE IN FUND BALANCE			
	\$ (3,623,535)	(2,967,261)	\$ 656,274
 FUND BALANCE:			
Beginning of year		9,108,652	
End of year		\$ 6,141,391	

City of Encinitas
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Lighting and Landscaping Special Revenue Fund
For the Year Ended June 30, 2016

	Final Budget	Actual Amounts	Variance with Final Budget
REVENUES:			
Taxes and assessments	\$ 1,900,050	\$ 2,008,450	\$ 108,400
Use of money and property	50,600	67,420	16,820
Other	30,500	18,792	(11,708)
Total revenues	1,981,150	2,094,662	113,512
EXPENDITURES:			
Current:			
Public works	2,017,903	1,926,522	91,381
Parks and recreation	138,754	112,724	26,030
Total expenditures	2,156,657	2,039,246	117,411
REVENUES OVER (UNDER) EXPENDITURES	(175,507)	55,416	230,923
OTHER FINANCING SOURCES (USES)			
Transfers in	8,400	8,400	16,800
Transfers (out)	-	(183,876)	(183,876)
Total other financing sources (uses)	8,400	(175,476)	(167,076)
NET CHANGE IN FUND BALANCE	\$ (167,107)	(120,060)	\$ 47,047
FUND BALANCE:			
Beginning of year		2,841,455	
End of year		\$ 2,721,395	



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Internal Service Funds

Internal Service Funds are used to finance and account for special activities and services performed by a designated City department for other departments on a cost reimbursement basis.

Risk Management - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis for risk management expenditures.

Wastewater Support - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis for wastewater support expenditures.

Vehicle Maintenance - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis for vehicle maintenance expenditures.

Vehicle Replacement - This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis for vehicle replacement expenditures.

City of Encinitas
Combining Statement of Net Position
All Internal Service Funds
June 30, 2016

	Risk Management	Wastewater Support	Vehicle Maintenance	Vehicle Replacement	Total
ASSETS					
Current assets:					
Cash and investments	\$ 4,462,732	\$ 11,097	\$ 8,986	\$ 1,388,151	\$ 5,870,966
Accounts receivable	31,259	-	3,460	-	34,719
Inventory and prepaid items	-	-	-	629,851	629,851
Total current assets	4,493,991	11,097	12,446	2,018,002	6,535,536
Noncurrent assets:					
Capital assets:					
Utility, plant, vehicles, and equipment, net	-	-	-	3,195,015	3,195,015
Total noncurrent assets	-	-	-	3,195,015	3,195,015
Total assets	4,493,991	11,097	12,446	5,213,017	9,730,551
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	119,008	11,097	12,446	33,652	176,203
Due to other funds	-	-	-	629,851	629,851
Current portion of capital leases payable	-	-	-	331,993	331,993
Total current liabilities	119,008	11,097	12,446	995,496	1,138,047
Noncurrent liabilities:					
Capital lease payable	-	-	-	595,540	595,540
Total noncurrent liabilities	-	-	-	595,540	595,540
Total liabilities	119,008	11,097	12,446	1,591,036	1,733,587
NET POSITION					
Net investment in capital assets	-	-	-	2,267,482	2,267,482
Unrestricted	4,374,983	-	-	1,354,499	5,729,482
Total net position	\$ 4,374,983	\$ -	\$ -	\$ 3,621,981	\$ 7,996,964

City of Encinitas
Combining Statement of Revenues, Expenses, and Changes in Net Position
All Internal Service Funds
For the Year Ended June 30, 2016

	Risk Management	Wastewater Support	Vehicle Maintenance	Vehicle Replacement	Total
OPERATING REVENUES:					
Charges for services	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution from users	-	-	-	-	-
Interfund revenues	1,082,031	984,255	562,910	-	2,629,196
Other revenues	350,784	-	200	5,439	356,423
Total operating revenues	1,432,815	984,255	563,110	5,439	2,985,619
OPERATING EXPENSES:					
Operational support services	482,896	98,915	210,534	233,734	1,026,079
Administrative support	382,431	772,340	352,576	-	1,507,347
Insurance and claims	1,527,229	-	-	-	1,527,229
Depreciation of capital assets	-	-	-	310,496	310,496
Total operating expenses	2,392,556	871,255	563,110	544,230	4,371,151
Operating income (loss)	(959,741)	113,000	-	(538,791)	(1,385,532)
NONOPERATING REVENUES:					
Gain (loss) on disposal of capital assets	-	-	-	8,750	8,750
Interest expense	-	-	-	(26,249)	(26,249)
Total nonoperating revenues	-	-	-	(17,499)	(17,499)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS					
	(959,741)	113,000	-	(556,290)	(1,403,031)
Transfer of capital leases from governmental activities	-	-	-	(1,252,139)	(1,252,139)
Transfers in	894,257	-	-	645,053	1,539,310
Transfers out	-	(113,000)	-	-	(113,000)
Total capital contributions and transfers	894,257	(113,000)	-	(607,086)	174,171
Net increase (decrease) in net position	(65,484)	-	-	(1,163,376)	(1,228,860)
NET POSITION:					
Beginning of year	4,440,467	-	-	4,785,357	9,225,824
End of year	\$ 4,374,983	\$ -	\$ -	\$ 3,621,981	\$ 7,996,964

City of Encinitas
Combining Statement of Cash Flows
All Internal Service Funds
For the Year Ended June 30, 2016

	Risk Management	Wastewater Support	Vehicle Maintenance	Vehicle Replacement	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from users	\$ 1,401,556	\$ 984,255	\$ 560,237	\$ 5,439	\$ 2,951,487
Payments to employees	(865,327)	(871,255)	(563,110)	(233,734)	(2,533,426)
Payments to suppliers and vendors	(1,462,682)	3,944	(5,011)	(102,974)	(1,566,723)
Net cash provided by (used in) operating activities	(926,453)	116,944	(7,884)	(331,269)	(1,148,662)
CASHFLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets	-	-	-	-	-
Principal payment on long-term debt	-	-	-	(324,606)	(324,606)
Interest payments on capital leases	-	-	-	(26,249)	(26,249)
Proceeds from sale of capital assets	-	-	-	8,750	8,750
Net cash used in capital and related financing activities	-	-	-	(342,105)	(342,105)
ACTIVITIES:					
Transfers in	894,257	-	-	645,053	1,539,310
Transfers (out)	-	(113,000)	-	-	(113,000)
Net cash provided by noncapital financing activities	894,257	(113,000)	-	645,053	1,426,310
Net increase (decrease) in cash and cash equivalents	(32,196)	3,944	(7,884)	(28,321)	(64,457)
CASH AND CASH EQUIVALENTS:					
Beginning of year	4,494,928	7,153	16,870	1,416,472	5,935,423
End of year	<u>\$ 4,462,732</u>	<u>\$ 11,097</u>	<u>\$ 8,986</u>	<u>\$ 1,388,151</u>	<u>\$ 5,870,966</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income (loss)	\$ (959,741)	\$ 113,000	\$ -	\$ (538,791)	\$ (1,385,532)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	-	310,496	310,496
Changes in operating assets and liabilities:					
Accounts receivable	(31,259)	-	(2,873)	-	(34,132)
Inventory and prepaid items	-	-	-	(629,851)	(629,851)
Accounts payable and accrued liabilities	64,547	3,944	(5,011)	(102,974)	(39,494)
Due to other funds	-	-	-	629,851	629,851
Total adjustments	33,288	3,944	(7,884)	(102,974)	(73,626)
Net cash provided by (used in) operating activities	\$ (926,453)	\$ 116,944	\$ (7,884)	\$ (331,269)	\$ (1,148,662)
NON-CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Transfer of capital leases from governmental activities	\$ -	\$ -	\$ -	\$ (1,252,139)	\$ (1,252,139)

FIDUCIARY FUNDS

AGENCY FUND

The Agency Funds are used to account for assets held by the City in a trustee capacity for individuals, private organizations, other governments, and/or other funds.

Community Facilities District #1 - This fund accounts for all money collected to pay for debt service of the Community Facilities District #1 for which the City acts as paying agent but has no legal commitment or obligation.

Requeza Street Assessment District #93-1 - This fund accounts for all money collected to pay for debt service of the Requeza Assessment District for which the City acts as paying agent but has no legal commitment or obligation.

City of Encinitas
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<u>Community Facilities District #1</u>				
Assets:				
Cash and investments	\$ 2,100,677	\$ 2,626,789	\$ (2,638,202)	\$ 2,089,264
Restricted cash and investments:				
Held by fiscal agents	1,975,737	2,612,891	(2,612,507)	1,976,121
Interest receivable	-	-	-	-
Special assessments receivable	29,755,000	-	(1,405,000)	28,350,000
Current assessments receivable	-	18,531	-	18,531
Total assets	\$ 33,831,414	\$ 5,258,211	\$ (6,655,709)	\$ 32,433,916
Liabilities:				
Due to bondholders	\$ 33,831,414	\$ 5,258,212	\$ (6,655,710)	\$ 32,433,916
Total liabilities	\$ 33,831,414	\$ 5,258,212	\$ (6,655,710)	\$ 32,433,916
<u>Requeza Street Assessment District No. 93-1</u>				
Assets:				
Cash and investments	\$ 175,180	\$ 210	\$ (171,896)	\$ 3,494
Special assessments receivable	165,000	-	(165,000)	-
Total assets	\$ 340,180	\$ 210	\$ (336,896)	\$ 3,494
Liabilities:				
Due to bondholders	\$ 340,180	\$ 210	\$ (336,896)	\$ 3,494
Total liabilities	\$ 340,180	\$ 210	\$ (336,896)	\$ 3,494
<u>Total - All Agency Funds</u>				
Assets:				
Cash and investments	\$ 2,275,857	\$ 2,626,999	\$ (2,810,098)	\$ 2,092,758
Restricted cash and investments:				
Held by fiscal agents	1,975,737	2,612,891	(2,612,507)	1,976,121
Interest receivable	-	-	-	-
Special assessments receivable	29,920,000	-	(1,570,000)	28,350,000
Current assessments receivable	-	18,531	-	18,531
Total assets	\$ 34,171,594	\$ 5,258,421	\$ (6,992,605)	\$ 32,437,410
Liabilities:				
Due to bondholders	\$ 34,171,594	\$ -	\$ -	\$ 32,437,410
Total liabilities	\$ 34,171,594	\$ -	\$ -	\$ 32,437,410

This section of the City of Encinitas' Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary and supplementary information says about the City's overall financial health.

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Financial Trends - These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

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Revenue Capacity - These schedules contain information to help the reader assess the City's most significant local revenue source which is property tax.

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Demographics and Economic Information - These schedules offer demographics and economic indicators to help the reader understand the environment within which the City's financial activities take place.

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Operating Information - These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

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Sources: Unless otherwise noted, the information in these schedules was derived from the Comprehensive Annual Financial Reports for the relevant year.

City of Encinitas
Net Position by Components
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
Government activities:					
Net investment in capital assets	\$ 120,651,504	\$ 125,786,039	\$ 131,703,037	\$ 130,912,728	\$ 139,575,875
Restricted	6,264,431	5,207,761	4,340,090	4,219,623	-
Unrestricted	52,721,705	56,901,871	53,452,967	54,755,944	56,799,902
Total governmental activities net assets	<u>\$ 179,637,640</u>	<u>\$ 187,895,671</u>	<u>\$ 189,496,094</u>	<u>\$ 189,888,295</u>	<u>\$ 196,375,777</u>
Business-type activities:					
Net investment in capital assets	1,806,768	19,204,679	19,422,684	25,014,811	30,076,172
Restricted	\$ 18,865,708	\$ 1,814,716	\$ 1,048,426	\$ -	\$ -
Unrestricted	60,256,625	65,301,729	68,683,799	71,916,135	72,608,845
Total business-type activities net assets	<u>\$ 80,929,101</u>	<u>\$ 86,321,124</u>	<u>\$ 89,154,909</u>	<u>\$ 96,930,946</u>	<u>\$ 102,685,017</u>
Primary government:					
Net investment in capital assets	\$ 122,458,272	\$ 144,990,718	\$ 151,125,721	\$ 155,927,539	\$ 169,652,047
Restricted	25,130,139	7,022,477	5,388,516	4,219,623	-
Unrestricted	112,978,330	122,203,600	122,136,766	126,672,079	129,408,747
Total primary government net position	<u>\$ 260,566,741</u>	<u>\$ 274,216,795</u>	<u>\$ 278,651,003</u>	<u>\$ 286,819,241</u>	<u>\$ 299,060,794</u>

City of Encinitas
Net Position by Components
Last Ten Fiscal Years

(Accrual Basis of Accounting)

(Continued)

	Fiscal Year				
	2012	2013	2014	2015	2016
Government activities:					
Net investment in capital assets	\$ 153,516,469	\$ 157,395,370	\$ 161,902,991	\$ 157,304,041	\$ 160,655,868
Restricted	-	9,980,695	17,363,704	18,741,022	30,996,309
Unrestricted	43,857,634	37,646,551	38,446,880	9,229,896	1,686,746
Total governmental activities net assets	<u>\$ 197,374,103</u>	<u>\$ 205,022,616</u>	<u>\$ 217,713,575</u>	<u>\$ 185,274,959</u>	<u>\$ 193,338,923</u>
Business-type activities:					
Net investment in capital assets	25,155,766	32,247,941	54,362,661	39,806,764	41,276,746
Restricted	\$ -	\$ -	\$ 1,039,739	\$ -	\$ 1,377,006
Unrestricted	83,232,015	79,816,600	62,426,804	75,781,002	76,737,487
Total business-type activities net assets	<u>\$ 108,387,781</u>	<u>\$ 112,064,541</u>	<u>\$ 117,829,204</u>	<u>\$ 115,587,766</u>	<u>\$ 119,391,239</u>
Primary government:					
Net investment in capital assets	\$ 178,672,235	\$ 189,643,311	\$ 216,265,652	\$ 197,110,805	\$ 201,932,614
Restricted	-	9,980,695	18,403,443	18,741,022	32,373,315
Unrestricted	127,089,649	117,463,151	100,873,684	85,010,898	78,424,233
Total primary government net position	<u>\$ 305,761,884</u>	<u>\$ 317,087,157</u>	<u>\$ 335,542,779</u>	<u>\$ 300,862,725</u>	<u>\$ 312,730,162</u>

City of Encinitas
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
Expenses:					
Government activities:					
General government	\$ 11,858,189	\$ 12,783,573	\$ 14,249,545	\$ 12,132,268	\$ 10,912,556
Public safety	20,783,243	21,015,336	22,039,493	22,269,616	22,324,624
Public works	6,728,553	11,595,020	9,360,563	9,520,416	10,981,355
Planning and building	4,892,201	5,287,058	4,833,543	5,599,614	5,539,148
Engineering services	3,078,645	3,972,242	4,010,485	3,873,432	3,646,306
Parks and recreation	5,318,816	6,594,001	6,902,715	6,518,623	6,243,769
Interest and fiscal charges on long-term debt	1,978,163	2,261,104	2,266,817	2,296,422	2,029,477
Total governmental activities expenses	54,637,810	63,508,334	63,663,161	62,210,391	61,677,235
Business-type activities:					
Cardiff Sanitary Division	2,948,112	2,985,912	2,854,368	3,569,880	3,715,529
San Dieguito Water District	11,712,887	11,894,734	12,955,085	11,633,694	11,622,126
Encinitas Sanitary Division	1,357,343	1,823,088	1,805,624	1,855,278	1,992,334
Affordable Housing	1,405,094	242,553	260,130	256,873	244,748
Recreation Programs	-	-	-	-	-
Total business-type activities expenses	17,423,436	16,946,287	17,875,207	17,315,725	17,574,737
Total primary government expenses	72,061,246	80,454,621	81,538,368	79,526,116	79,251,972
Program revenues:					
Government activities:					
Charges for services:					
General government	2,248,666	2,895,795	1,608,273	1,962,344	2,453,152
Public safety	1,127,923	1,006,293	103,641	105,799	98,202
Public works	-	-	19,276	668	-
Planning and building	2,341,988	2,284,066	1,539,851	1,521,889	1,816,765
Engineering services	1,430,282	1,655,539	759,885	660,734	1,063,822
Parks and recreation	928,810	1,224,923	810,667	1,126,285	1,149,350
Operating grants and contributions	5,086,623	5,736,957	4,838,455	5,392,117	6,964,053
Capital grants and contributions	4,372,149	2,699,027	3,613,636	3,437,302	4,854,393
Total governmental activities program revenues	17,536,441	17,502,600	13,293,684	14,207,138	18,399,737
Business-type activities:					
Charges for services:					
Cardiff Sanitary Division	4,826,970	4,926,104	5,009,340	4,979,238	4,830,204
San Dieguito Water District	10,961,760	11,283,219	11,379,337	11,046,650	12,438,502
Encinitas Sanitary Division	2,556,281	2,685,490	2,811,359	2,816,963	2,895,879
Affordable Housing	-	-	222,507	202,499	216,723
Recreation Programs	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-
Capital grants and contributions	277,210	746,586	299,326	231,362	712,827
Total business-type activities program revenues	18,622,221	19,641,399	19,721,869	19,276,712	21,094,135
Total primary government program revenues	36,158,662	37,143,999	33,015,553	33,483,850	39,493,872
Governmental activities	(37,101,369)	(46,005,734)	(50,369,477)	(48,003,253)	(43,277,498)
Business-type activities	1,198,785	2,695,112	1,846,662	1,960,987	3,519,398
Total net revenue (expense)	\$(35,902,584)	\$(43,310,622)	\$(48,522,815)	\$(46,042,266)	\$(39,758,100)

City of Encinitas
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Continued)

	Fiscal Year				
	2012	2013	2014	2015	2016
Expenses:					
Government activities:					
General government	\$ 12,064,527	\$ 10,616,440	\$ 9,549,338	\$ 10,810,882	\$ 11,750,737
Public safety	23,062,746	24,629,613	25,146,843	25,762,703	27,255,755
Public works	8,560,330	10,851,147	10,239,746	11,565,315	11,743,123
Planning and building	5,008,179	4,353,831	5,853,995	6,550,992	7,255,460
Engineering services	5,817,932	3,813,678	3,988,720	6,253,352	4,591,315
Parks and recreation	5,578,716	5,542,550	4,735,864	5,205,986	6,778,769
Interest and fiscal charges on long-term debt	1,811,714	1,932,904	1,913,349	2,311,944	2,494,815
Total governmental activities expenses	<u>61,904,144</u>	<u>61,740,163</u>	<u>61,427,855</u>	<u>68,461,174</u>	<u>71,869,974</u>
Business-type activities:					
Cardiff Sanitary Division	3,385,439	3,373,704	2,922,446	4,262,565	3,857,531
San Dieguito Water District	12,448,911	12,200,431	13,552,862	15,005,767	13,462,935
Encinitas Sanitary Division	1,719,176	1,983,786	2,438,692	1,731,770	2,306,540
Affordable Housing	1,492,811	1,499,863	1,405,225	1,408,226	1,440,124
Recreation Programs	1,187,788	1,153,840	1,300,555	1,331,565	-
Total business-type activities expenses	<u>20,234,125</u>	<u>20,211,624</u>	<u>21,619,780</u>	<u>23,739,893</u>	<u>21,067,130</u>
Total primary government expenses	<u>82,138,269</u>	<u>81,951,787</u>	<u>83,047,635</u>	<u>92,201,067</u>	<u>92,937,104</u>
Program revenues:					
Government activities:					
Charges for services:					
General government	1,789,943	1,775,756	1,800,630	1,629,857	1,594,277
Public safety	99,047	91,495	202,220	160,178	1,009,713
Public works	-	-	-	759,918	107,279
Planning and building	2,155,076	1,894,785	2,874,894	2,737,225	2,800,413
Engineering services	736,786	955,986	1,075,885	1,055,311	1,367,902
Parks and recreation	14,580	39,946	35,791	46,846	1,741,619
Operating grants and contributions	5,896,502	3,759,864	4,345,931	3,878,422	3,349,186
Capital grants and contributions	3,626,279	6,462,979	8,756,281	4,126,194	5,409,098
Total governmental activities program revenues	<u>14,318,213</u>	<u>14,980,811</u>	<u>19,091,632</u>	<u>14,393,951</u>	<u>17,379,487</u>
Business-type activities:					
Charges for services:					
Cardiff Sanitary Division	4,970,662	4,755,573	4,605,867	4,528,551	4,761,486
San Dieguito Water District	12,922,922	13,687,156	15,297,718	14,785,858	14,684,387
Encinitas Sanitary Division	2,897,592	2,933,319	2,879,605	2,841,235	2,855,690
Affordable Housing	214,503	214,115	216,728	247,349	218,148
Recreation Programs	1,273,007	1,059,009	1,269,179	1,321,471	-
Operating grants and contributions	1,105,851	1,103,639	994,607	1,061,698	1,068,549
Capital grants and contributions	460,688	1,003,057	1,066,769	483,425	681,412
Total business-type activities program revenues	<u>23,845,225</u>	<u>24,755,868</u>	<u>26,330,473</u>	<u>25,269,587</u>	<u>24,269,672</u>
Total primary government program revenues	<u>38,163,438</u>	<u>39,736,679</u>	<u>45,422,105</u>	<u>39,663,538</u>	<u>41,649,159</u>
Governmental activities	(47,585,931)	(46,759,352)	(42,336,223)	(54,067,223)	(54,490,487)
Business-type activities	3,611,100	4,544,244	4,710,693	1,529,694	3,202,542
Total net revenue (expense)	<u>\$(43,974,831)</u>	<u>\$(42,215,108)</u>	<u>\$(37,625,530)</u>	<u>\$(52,537,529)</u>	<u>\$(51,287,945)</u>

City of Encinitas
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Continued)

	Fiscal Year				
	2007	2008	2009	2010	2011
General Revenues and Other Changes in Net Position:					
Governmental activities:					
Taxes					
Property taxes and transfer fees	\$ 32,593,979	\$ 33,858,150	\$ 35,064,401	\$ 32,285,155	\$ 32,292,988
Sales taxes	9,043,912	8,130,837	7,340,410	8,780,203	10,244,506
Transient occupancy taxes	1,089,065	1,182,816	1,099,817	1,179,789	1,276,980
Franchise taxes	2,011,947	2,212,915	2,162,729	2,031,924	2,108,420
Intergovernmental revenues	753,722	1,335,594	1,866,726	794,362	1,488,770
Use of money and property	3,957,869	3,842,268	2,884,233	1,085,981	657,796
Other general revenues	502,115	568,884	1,551,584	2,238,041	1,695,520
Gain/(Loss) on sale of assets	(5,682)	-	-	-	-
Transfers	(1,227,186)	-	-	-	-
Total governmental activities	48,719,741	51,131,464	51,969,900	48,395,455	49,764,980
Business-type activities:					
Property taxes	651,195	690,407	721,628	718,212	706,175
Intergovernmental-unrestricted	893,500	-	-	-	-
Use of money and property	1,374,862	1,756,153	974,702	395,152	508,089
Other general revenues	238,270	250,351	45,193	228,614	401,013
Gain/(Loss) on sale of assets	-	-	-	-	-
Transfers	1,227,186	-	-	-	-
Total business-type activities	4,385,013	2,696,911	1,741,523	1,341,978	1,615,277
Total primary government	53,104,754	53,828,375	53,711,423	49,737,433	51,380,257
Changes in Net Position					
Government activities	11,618,372	5,125,730	1,600,423	392,202	6,487,482
Business-type activities	5,583,798	5,392,023	3,588,185	3,302,965	5,134,675
Total primary government	\$ 17,202,170	\$ 10,517,753	\$ 5,188,608	\$ 3,695,167	\$ 11,622,157

The City reports Recreation Programs as a business-type activity starting in Fiscal Year 2012.

City of Encinitas
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)
(Continued)

	Fiscal Year				
	2012	2013	2014	2015	2016
General Revenues and Other Changes in Net Position:					
Governmental activities:					
Taxes					
Property taxes and transfer fees	\$ 32,788,129	\$ 34,974,578	\$ 36,414,507	\$ 38,508,558	\$ 41,210,485
Sales taxes	10,613,188	11,585,145	12,067,360	12,569,119	14,166,771
Transient occupancy taxes	1,413,926	1,491,998	1,570,459	1,828,116	2,018,024
Franchise taxes	2,144,162	2,323,616	2,614,844	2,761,335	2,794,144
Intergovernmental revenues	635,097	541,079	479,026	814,337	388,876
Use of money and property	387,066	552,512	705,849	880,989	611,350
Other general revenues	1,780,543	1,596,026	1,257,002	1,567,168	956,824
Gain/(Loss) on sale of assets	-	-	(48,320)	107,177	8,865
Transfers	(668,877)	1,809,656	(33,545)	(36,068)	399,112
Total governmental activities	49,093,234	54,874,610	55,027,182	59,000,731	62,554,451
Business-type activities:					
Property taxes	725,551	749,378	787,242	834,994	906,106
Intergovernmental-unrestricted	-	189,676	-	-	-
Use of money and property	188,259	3,118	357,357	(60,169)	(63,690)
Other general revenues	-	-	63,768	63,768	153,667
Gain/(Loss) on sale of assets	-	-	(187,942)	18,085	4,010
Transfers	668,877	(1,809,656)	33,545	36,068	(399,112)
Total business-type activities	1,582,687	(867,484)	1,053,970	892,746	600,981
Total primary government	50,675,921	54,007,126	56,081,152	59,893,477	63,155,432
Changes in Net Position					
Government activities	1,507,303	8,115,258	12,690,959	4,933,508	8,063,964
Business-type activities	5,193,787	3,676,760	5,764,663	2,422,440	3,803,523
Total primary government	\$ 6,701,090	\$ 11,792,018	\$ 18,455,622	\$ 7,355,948	\$ 11,867,487

The City reports Recreation Programs as a business-type activity starting in Fiscal Year 2012.

City of Encinitas
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
General fund:					
Reserved	\$ 15,196,796	\$ 6,210,167	\$ 5,255,137	\$ 4,286,026	-
Unreserved, designated	-	35,790,162	38,413,388	36,913,369	-
Unreserved, undesignated	36,488,893	9,126,804	3,866,759	5,789,899	-
Nonspendable	-	-	-	-	2,648,338
Restricted	-	-	-	-	633,245
Committed	-	-	-	-	42,274,327
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	1,850,582
Total general fund	<u>\$ 51,685,689</u>	<u>\$ 51,127,133</u>	<u>\$ 47,535,284</u>	<u>\$ 46,989,294</u>	<u>\$ 47,406,492</u>
All other governmental funds:					
Reserved	\$ 4,176,025	\$ 3,908,007	\$ 3,771,850	\$ 3,408,409	\$ -
Unreserved, designated	16,909,261	10,968,342	10,694,605	10,430,543	-
Unreserved, undesignated	-	-	-	-	-
Nonspendable	-	-	-	-	145,686
Restricted	-	-	-	-	8,290,163
Committed	-	-	-	-	7,570,021
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total all other governmental funds	<u>\$ 21,085,286</u>	<u>\$ 14,876,349</u>	<u>\$ 14,466,455</u>	<u>\$ 13,838,952</u>	<u>\$ 16,005,870</u>
Total all governmental funds	<u><u>\$ 72,770,975</u></u>	<u><u>\$ 66,003,482</u></u>	<u><u>\$ 62,001,739</u></u>	<u><u>\$ 60,828,246</u></u>	<u><u>\$ 63,412,362</u></u>

(1)

(1) GASB 54, which requires changes in reporting categories for fund balances was implemented in Fiscal Year 2010-2011.

City of Encinitas
Fund Balances of Governmental Funds
Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(Continued)

	Fiscal Year				
	2012	2013	2014	2015	2016
General fund:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, designated	-	-	-	-	-
Unreserved, undesignated	-	-	-	-	-
Nonspendable	2,868,533	1,980,075	2,052,250	1,535,601	1,109,424
Restricted	-	7,996,400	4,079	3,009,269	-
Committed	19,371,624	9,847,719	8,136,886	8,266,796	-
Assigned	-	561,762	561,762	561,762	-
Unassigned	17,964,935	21,160,822	25,151,131	28,029,019	31,775,120
Total general fund	<u>\$ 40,205,092</u>	<u>\$ 41,546,778</u>	<u>\$ 35,906,108</u>	<u>\$ 41,402,447</u>	<u>\$ 32,884,544</u>
All other governmental funds:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, designated	-	-	-	-	-
Unreserved, undesignated	-	-	-	-	-
Nonspendable	-	-	1,565	-	287,756
Restricted	13,471,421	13,036,985	17,358,060	18,741,022	4,305,652
Committed	-	-	-	-	1,626,219
Assigned	2,169,209	2,135,100	-	-	24,776,682
Unassigned	-	-	-	-	-
Total all other governmental funds	<u>\$ 15,640,630</u>	<u>\$ 15,172,085</u>	<u>\$ 17,359,625</u>	<u>\$ 18,741,022</u>	<u>\$ 30,996,309</u>
Total all governmental funds	<u><u>\$ 55,845,722</u></u>	<u><u>\$ 56,718,863</u></u>	<u><u>\$ 53,265,733</u></u>	<u><u>\$ 60,143,469</u></u>	<u><u>\$ 63,880,853</u></u>

(1) GASB 54, which requires changes in reporting categories for fund balances was implemented in Fiscal Year 2010-2011.

City of Encinitas
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
Revenues:					
Taxes and assessments	\$ 46,922,540	\$ 47,483,312	\$ 47,800,573	\$ 46,805,219	\$ 48,100,768
Intergovernmental	5,596,224	5,999,680	5,950,205	6,917,521	8,369,571
Charges for services	8,022,053	9,293,303	6,621,931	5,164,315	6,376,261
Fines, forfeitures, and penalties	949,606	884,446	746,023	761,202	856,392
Use of money and property	3,943,512	3,851,877	2,008,557	1,085,981	657,798
Other	4,679,351	1,227,055	1,110,325	2,875,491	3,803,927
Total Revenues	70,113,286	68,739,673	64,237,614	63,609,729	68,164,717
Expenditures:					
Current:					
General government	9,601,089	11,903,557	13,036,815	11,859,415	10,155,732
Public safety	20,674,992	20,896,882	21,636,969	22,049,239	22,107,692
Public works	4,679,795	5,432,032	6,033,513	5,888,161	6,051,253
Planning and building	4,892,201	5,287,058	4,811,020	5,599,614	5,539,148
Engineering services	3,078,645	3,972,242	3,986,859	3,873,432	3,646,306
Parks and recreation	5,318,816	5,585,446	5,811,778	5,482,578	5,293,664
Capital outlay	23,383,302	20,704,628	8,473,396	5,606,327	8,559,193
Debt service:					
Principal	1,499,032	1,581,033	2,197,891	2,091,882	2,481,223
Interest and fiscal charges	1,780,651	2,244,288	2,251,116	2,332,574	2,056,501
Bond issuance costs	-	-	-	-	395,404
Total expenditures	74,908,523	77,607,166	68,239,357	64,783,222	66,286,116
Excess (deficiency) of revenues over (under) expenditures	(4,795,237)	(8,867,493)	(4,001,743)	(1,173,493)	1,878,601
Other Financing Sources (Uses):					
Transfer in from CFD debt service	-	-	-	-	-
Operating transfers in	23,774,352	25,007,578	12,631,197	11,066,120	13,133,224
Operating transfers out	(24,998,428)	(25,007,578)	(12,631,197)	(11,066,120)	(13,133,224)
Proceeds from capital lease	-	-	-	-	-
Proceeds from sale of property	-	-	-	-	19,530,000
Issuance of debt	20,000,000	2,100,000	-	-	-
Premium on debt	-	-	-	-	215,515
Deposit to escrow for bond refunding	-	-	-	-	-
Bond discounts	(300,000)	0	-	-	(19,040,000)
Total other financing sources (uses)	18,475,924	2,100,000	0	-	705,515
Net change in fund balances	\$ 13,680,687	\$ (6,767,493)	\$ (4,001,743)	\$ (1,173,493)	\$ 2,584,116
Debt service as a percentage of noncapital expenditures	6.8%	7.2%	8.0%	8.1%	8.6%

City of Encinitas
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years

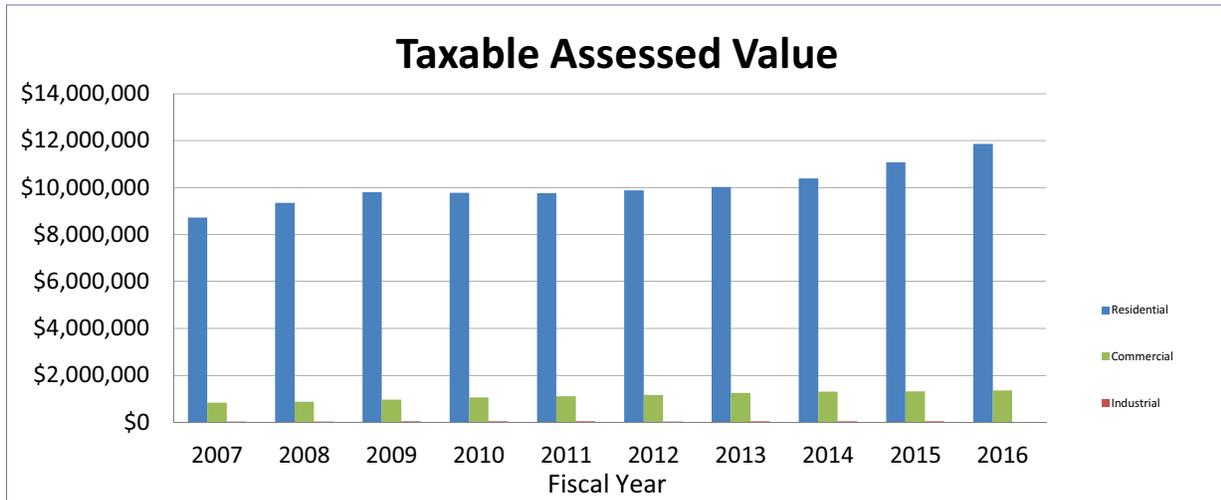
(Modified Accrual Basis of Accounting)

(Continued)

	Fiscal Year				
	2012	2013	2014	2015	2016
Revenues:					
Taxes and assessments	\$ 49,089,142	\$ 51,528,542	\$ 53,830,193	\$ 56,825,628	\$ 61,325,308
Intergovernmental	6,537,855	8,520,220	5,025,480	7,022,485	6,689,475
Charges for services	4,406,737	4,450,756	5,479,847	5,315,721	6,585,518
Fines, forfeitures, and penalties	657,364	611,029	632,776	802,936	889,388
Use of money and property	639,676	572,481	724,310	899,807	1,222,730
Other	2,715,266	2,141,439	3,654,621	2,456,996	2,804,043
Total Revenues	64,046,040	67,824,467	69,347,227	73,323,573	79,516,462
Expenditures:					
Current:					
General government	9,277,443	9,430,487	9,109,412	9,362,214	9,288,227
Public safety	22,853,121	23,655,367	24,164,979	24,902,920	26,976,136
Public works	5,843,228	6,057,646	6,281,800	6,682,424	6,305,340
Planning and building	4,655,501	4,238,882	4,716,315	5,082,589	5,159,777
Engineering services	3,804,813	3,716,994	3,949,352	4,162,630	4,298,563
Parks and recreation	4,333,303	4,377,047	4,672,683	5,091,224	6,366,337
Capital outlay	12,803,379	18,836,006	14,548,894	18,440,036	10,799,083
Debt service:					
Principal	2,359,932	2,295,614	2,661,976	2,730,686	2,783,268
Interest and fiscal charges	1,872,773	2,050,068	1,937,144	2,170,164	2,372,231
Bond issuance costs	0	-	-	-	-
Total expenditures	67,803,493	74,658,111	72,042,555	78,624,887	74,348,962
Excess (deficiency) of revenues over (under) expenditures	(3,757,453)	(6,833,644)	(2,695,328)	(5,301,314)	5,167,500
Other Financing Sources (Uses):					
Transfer in from CFD debt service	-	-	-	-	-
Operating transfers in	17,661,946	23,363,240	20,570,966	24,514,293	44,550,246
Operating transfers out	(18,354,656)	(24,208,239)	(21,328,768)	(25,509,616)	(45,577,444)
Proceeds from capital lease	599,639	555,384	-	-	-
Issuance of debt	-	7,865,000	-	13,174,373	15,645,000
Issuance of debt	-	-	-	-	115
Premium on debt	-	131,400	-	-	772,212
Premium on debt	-	-	-	-	(16,820,243)
Bond discounts	-	-	-	-	-
Total other financing sources (uses)	(93,071)	7,706,784	(757,802)	12,179,050	(1,430,114)
Net change in fund balances	\$ (3,850,524)	\$ 873,140	\$ (3,453,130)	\$ 6,877,736	\$ 3,737,386
Debt service as a percentage of noncapital expenditures	8.3%	8.4%	8.7%	8.9%	8.8%

**City of Encinitas
Assessed Value and Estimated
Actual Value of Taxable Property
Last Ten Fiscal Years**

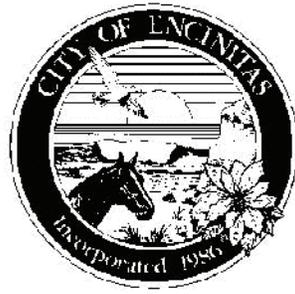
Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	All Other Property (1)	Total Net Taxable Assessed Value (2)	Total Direct Tax Rate % (3)
2007	\$ 8,729,334	\$ 831,148	\$ 32,714	\$ 425,261	\$ 10,018,457	0.23182%
2008	9,342,260	875,958	33,263	435,672	10,687,153	0.23229%
2009	9,800,179	969,642	35,427	451,831	11,257,079	0.23278%
2010	9,774,056	1,063,161	36,255	464,096	11,337,568	0.23338%
2011	9,767,731	1,110,811	36,036	427,619	11,342,197	0.23472%
2012	9,886,681	1,154,923	34,944	421,308	11,497,856	0.23866%
2013	10,030,357	1,247,785	37,766	408,020	11,723,928	0.23974%
2014	10,393,910	1,300,287	39,501	413,663	12,147,361	0.24570%
2015	11,073,358	1,323,412	39,665	433,569	12,870,004	0.24534%
2016	11,864,809	1,359,004	41,187	437,972	13,702,972	0.23978%



- (1) All Other Property includes the following categories: dry farm, institutional, irrigated, recreational, vacant land, SBC nonunitary, possessory interest, unsecured, and unknown.
- (2) The "total net taxable assessed value" is net of tax-exempt property. Homeowners exemptions are not included in the totals shown..
- (3) The total direct tax rate is the city's proportionate share of Proposition 13 property taxes collected within the tax area.

**City of Encinitas
Principal Property Taxpayers
Current Fiscal Year and Nine Years Ago**

Taxpayer	2016			2007		
	Taxable Assessed Secured Value	Rank	% of Total City Assessed Secure Value	Taxable Assessed Secured Value	Rank	% of Total City Assessed Secure Value
TRC Encinitas Village	\$ 81,648,417	1	0.60%			
Collwood Pines Apartments LP	75,997,680	2	0.56%			
Belmont Village Tenant LLC	56,294,467	3	0.42%			
Camino Village LLC	38,260,829	4	0.28%			
Encinitas Town Center Associates LLC	36,575,336	5	0.27%	\$ 83,102,227	1	0.84%
PK III Encinitas Marketplace LP	35,100,000	6	0.26%			
NCHC 3 LLC	34,748,693	7	0.26%	19,772,253	9	0.20%
Weingarten Nostat Inc	34,088,170	8	0.25%			
Home Depot USA Inc.	29,772,846	9	0.220%			
ASN Encinitas LLC	28,217,778	10	0.21%			
SSL Landlord LLC						
Scripps Health						
Vons Companies Inc.				33,297,337	2	0.34%
Secrest Holdings Corporation				27,586,319	3	0.28%
Enrique Apartment Company				26,815,255	4	0.27%
WRI El Camino LP				25,559,506	5	0.26%
Encinitas Plaza LLC				25,045,004	6	0.25%
North Coast Business Park				24,135,158	7	0.24%
Urschel Holdings LP				21,040,588	8	0.21%
Keith B and Sara S Harrison				18,072,453	10	0.18%
	<u>\$ 450,704,216</u>		<u>3.33%</u>	<u>\$ 304,426,100</u>		<u>3.08%</u>



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**City of Encinitas
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended June 30	(1) Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy	
		Amount	Percent of Levy
2007	\$ 25,857,065	\$ 24,741,077	95.68%
2008	26,950,803	25,584,630	94.93%
2009	27,441,558	26,326,996	95.94%
2010	27,421,386	26,490,783	96.61%
2011	27,541,487	26,888,921	97.63%
2012	28,100,611	27,540,858	98.01%
2013	29,207,237	28,712,036	98.30%
2014	30,550,301	30,009,574	98.23%
2015	32,251,814	31,755,994	98.46%
2016	34,443,972	33,941,624	98.54%

(1) City of Encinitas General Fund

City of Encinitas
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

	Fiscal Year				
	2007	2008	2009	2010	2011
	%	%	%	%	%
City of Encinitas Basic Rate	0.23182	0.23229	0.23278	0.23338	0.23472
City of Encinitas Direct Rate (1)	0.23182	0.23229	0.23278	0.23338	0.23472
Overlapping Rates: (2)					
City of Encinitas	0.26641	0.26641	0.26648	0.26648	0.26648
Encinitas Landscape & Lighting District	0.01596	0.01596	0.01596	0.01596	0.01596
Autistic Pupils Monors Elem	0.00009	0.00009	0.00009	0.00009	0.00009
Autistic Pupils Monors High	0.00009	0.00009	0.00009	0.00009	0.00009
Cardiff Elementary	0.26237	0.26237	0.26240	0.26240	0.26240
Children's Institutions Tuition	0.00146	0.00146	0.00146	0.00146	0.00146
County General	0.08264	0.08264	0.07570	0.07570	0.07570
County Library	0.01298	0.01298	0.01995	0.01995	0.01995
County School Service	0.00687	0.00687	0.00687	0.00687	0.00687
County School Service-Capital Outlay	0.00173	0.00173	0.00173	0.00173	0.00173
County Service Area No. 17	0.00291	0.00291	0.00291	0.00291	0.00291
CWA San Dieguito Water District	0.00344	0.00344	0.00344	0.00344	0.00344
Development Centers for Handicapped Elem	0.00043	0.00043	0.00043	0.00043	0.00043
Development Centers for Handicapped High	0.00044	0.00044	0.00044	0.00044	0.00044
Educable Mentally Retarded Minors	0.00196	0.00196	0.00196	0.00196	0.00196
Educational Revenue Augmentation Fund	0.08574	0.08574	0.08570	0.08570	0.08570
Mira Costa Community College	0.08594	0.08594	0.08590	0.08590	0.08590
Physically Handicapped Minors Elem	0.00303	0.00303	0.00303	0.00303	0.00303
Physically Handicapped Minors High	0.00304	0.00304	0.00304	0.00304	0.00304
Regional Occupational Centers	0.00438	0.00438	0.00438	0.00438	0.00438
San Dieguito Union High	0.14405	0.14405	0.14400	0.14400	0.14400
San Dieguito Water District	0.00992	0.00992	0.00992	0.00992	0.00992
Trainable Mentally Retarded Minors Elem	0.00197	0.00197	0.00197	0.00197	0.00197
Trainable Mentally Retarded Minors High	0.00198	0.00198	0.00198	0.00198	0.00198
Vista Project (19/85701)	0.00017	0.00017	0.00017	0.00017	0.00017
Total Prop 13 Rate (3)	1.00000	1.00000	1.00000	1.00000	1.00000

Notes:

- (1) Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.
- (2) General fund tax rates are representative and based upon the direct and overlapping rates for the largest General Fund tax rate area (TRA) by net taxable value.
- (3) 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 was 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.

City of Encinitas
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Continued)

	Fiscal Year				
	2012	2013	2014	2015	2016
	%	%	%	%	%
City of Encinitas Basic Rate	0.23866	0.23974	0.24002	0.24534	0.23978
City of Encinitas Direct Rate (1)	0.23866	0.23974	0.24002	0.24534	0.23978
Overlapping Rates: (2)					
City of Encinitas	0.24020	0.24020	0.24020	0.24020	0.24020
Encinitas Landscape & Lighting District	0.02100	0.02100	0.02100	0.02100	0.02100
Autistic Pupils Monors Elem	0.00000	0.00000	0.00000	0.00000	0.00000
Autistic Pupils Monors High	0.00000	0.00000	0.00000	0.00000	0.00000
Cardiff Elementary	0.24870	0.24870	0.24870	0.24870	0.24870
Children's Institutions Tuition	0.00107	0.00107	0.00107	0.00107	0.00107
County General	0.08020	0.08020	0.08020	0.08020	0.08020
County Library	0.01969	0.01969	0.01969	0.01969	0.01969
County School Service	0.00643	0.00643	0.00643	0.00643	0.00643
County School Service-Capital Outlay	0.00161	0.00161	0.00161	0.00161	0.00161
County Service Area No. 17	0.00251	0.00251	0.00251	0.00251	0.00251
CWA San Dieguito Water District	0.02510	0.02510	0.02510	0.02510	0.02510
Development Centers for Handicapped Elem	0.00000	0.00000	0.00000	0.00000	0.00000
Development Centers for Handicapped High	0.00000	0.00000	0.00000	0.00000	0.00000
Educable Mentally Retarded Minors	0.00161	0.00161	0.00161	0.00161	0.00161
Educational Revenue Augmentation Fund	0.08620	0.08620	0.08620	0.08620	0.08620
Mira Costa Community College	0.08150	0.08150	0.08150	0.08150	0.08150
Physically Handicapped Minors Elem	0.00268	0.00268	0.00268	0.00268	0.00268
Physically Handicapped Minors High	0.00268	0.00268	0.00268	0.00268	0.00268
Regional Occupational Centers	0.00375	0.00375	0.00375	0.00375	0.00375
San Dieguito Union High	0.13610	0.13610	0.13610	0.13610	0.13610
San Dieguito Water District	0.03590	0.03590	0.03590	0.03590	0.03590
Trainable Mentally Retarded Minors Elem	0.00161	0.00161	0.00161	0.00161	0.00161
Trainable Mentally Retarded Minors High	0.00161	0.00161	0.00161	0.00161	0.00161
Vista Project (19/85701)	0.00000	0.00000	0.00000	0.00000	0.00000
Total Prop 13 Rate (3)	1.00000	1.00000	1.00000	1.00000	1.00000

Notes:

- (1) Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.
- (2) General fund tax rates are representative and based upon the direct and overlapping rates for the largest General Fund tax rate area (TRA) by net taxable value.
- (3) 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 was 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.

City of Encinitas
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Continued)

	Fiscal Year				
	2007	2008	2009	2010	2011
	%	%	%	%	%
Gen Bond Cardiff 2000A	0.03508	0.03306	0.03212	0.03518	-
Gen Bond Cardiff 2000 Election,2010 Ref.Bonds	-	-	-	-	0.03715
MWD D/S Remainder of SDCWA 1501999	0.00470	0.00450	0.00430	0.00430	0.00370
Total Voter Approved Rate	0.03978	0.03756	0.03642	0.03948	0.04085
Total Tax Rate	<u>1.03978</u>	<u>1.03756</u>	<u>1.03642</u>	<u>1.03948</u>	<u>1.04085</u>

City of Encinitas
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Continued)

	2012	2013	2014	2015	2016
	%	%	%	%	%
Gen Bond Cardiff 2000A	-	-	-	-	-
Gen Bond Cardiff 2000 Election,2010 Ref.Bonds	0.03489	0.03458	0.03386	-	-
MWD D/S Remainder of SDCWA 1501999	0.00370	0.00350	0.00350	0.00350	0.00350
Total Voter Approved Rate	0.03859	0.03808	0.03736	0.00350	0.00350
Total Tax Rate	1.03859	1.03808	1.03736	1.00350	1.00350

**City of Encinitas
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Governmental Activities		Total Governmental Activities
	Bonded Debt	Capital Leases	
2007	49,410,000	696,373	50,106,373
2008	47,960,000	2,670,340 (3)	50,630,340
2009	46,005,000	2,432,449	48,437,449
2010	44,165,000	2,185,567	46,350,567
2011	42,641,535	3,036,899	45,678,434
2012	40,645,759	3,281,606	43,927,365
2013	46,736,383	3,446,376	50,182,759
2014	44,546,848	2,964,400	47,511,248
2015	55,431,687	2,513,713	57,945,400
2016	52,933,882	2,050,840	54,984,722

(1) Percentage of Personal Income ratios are calculated using personal income and population for the prior calendar year.

(2) Debt per Capita is calculated by dividing the total primary government amount by City population shown on the Demographic and Economic statistics page.

(3) During 2008, the City borrowed \$2.1 million to partially fund major improvements to the Encinitas Civic Center under a capital lease arrangement with a financial institution.

City of Encinitas
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Continued)

Fiscal Year Ended June 30	<u>Business-type Activities</u>				Total Primary Government	Debt Per Capita (2)
	Water Bonds and Notes	CSD Note Payable	EHA Note Payable	Total Business- type Activities		
2007	20,030,000	7,085,000	1,786,769	28,901,769	79,298,142	1242
2008	19,340,000	6,660,000	1,723,832	27,723,832	78,354,172	1318
2009	18,440,000	6,220,000	1,681,534	26,341,534	74,778,983	1254
2010	17,545,000	5,770,000	1,638,817	24,953,817	71,304,384	1190
2011	16,620,000	5,300,000	1,591,681	23,511,681	69,190,115	1147
2012	15,660,000	4,625,969	1,544,434	21,830,403	65,757,768	1090
2013	14,670,000	4,045,028	1,495,415	20,210,443	70,393,202	1162
2014	13,645,000	3,447,591	1,444,731	18,537,322	66,048,570	1079
2015	11,669,345	2,833,824	1,391,715	15,894,884	73,840,284	1200
2016	10,609,973	2,205,893	1,331,410	14,147,276	69,131,998	1116

(1) Percentage of Personal Income ratios are calculated using personal income and population for the prior calendar year.

(2) Debt per Capita is calculated by dividing the total primary government amount by City population shown on the Demographic and Economic statistics page.

(3) During 2008, the City borrowed \$2.1 million to partially fund major improvements to the Encinitas Civic Center under a capital lease arrangement with a financial institution.

City of Encinitas
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year Ended June 30	<u>Outstanding General Bonded Debt</u> Certificates of Participation and Lease Revenue Bonds		Assessed Valuation (1)	Percentage of Assessed Value	Per Capita
2007	\$	49,410,000	\$ 10,018,457,000	0.49%	781
2008		47,960,000	10,687,153,000	0.45%	751
2009		46,005,000	11,257,079,000	0.41%	774
2010		44,165,000	11,337,568,000	0.39%	741
2011		42,641,535	11,342,197,000	0.38%	712
2012		40,645,759	11,497,857,000	0.35%	674
2013		46,736,383	11,725,285,000	0.40%	772
2014		44,546,848	12,147,361,000	0.37%	728
2015		55,431,687	12,870,003,660	0.43%	901
2016		54,984,722	13,702,972,188	0.40%	888

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds of which, the City has none.

(1) Assessed valuation has been used because the actual market value of taxable property is not readily available in the State of California. The assessed valuation information can be found in the Assessed Value and Estimated Actual Value of Taxable Property schedule in the Statistical Section.

City of Encinitas
Schedule of Direct and Overlapping Bonded Debt
June 30, 2016

<u>\$13,704,596,790</u>	<u>Total Debt</u> 6/30/16	<u>Applicable</u> % (1)	<u>City's Share of</u> <u>Overlapping Debt</u> 6/30/16
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	\$ 92,865,000	0.559%	\$ 519,115
Cardiff School District	4,415,198	100%	4,415,198
Encinitas Union School District	44,024,619	67.099%	29,540,079
San Dieguito Union High School	261,260,000	24.568%	64,186,357
San Dieguito Union High School District Community Facilities Districts	34,393,533	1.840-100.00%	10,856,280
City of Encinitas Community Facilities District No. 1	28,350,000	100%	28,350,000
Olivenhain Municipal Water District, Assessment District No. 96-1	12,485,000	25.913%	3,235,238
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			<u>\$ 141,102,267</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>			
San Diego County General Fund Obligations	\$ 307,830,000	3.097%	\$ 9,533,495
San Diego County Pension Obligations	649,860,000	3.097%	20,126,164
San Diego County Superintendent of Schools Obligations	13,295,000	3.097%	411,746
Mira Costa Community College District Certificates of Participation	1,335,000	15.206%	203,000
San Dieguito Union High School District General Fund Obligations	12,730,000	24.568%	3,127,506
City of Encinitas Governmental Bonded Debt	52,180,000	100%	<u>52,180,000</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>\$ 85,581,911</u>
TOTAL DIRECT DEBT			<u>\$ 52,180,000</u>
TOTAL OVERLAPPING DEBT			<u>174,504,178</u>
COMBINED TOTAL DEBT			<u>\$ 226,684,178</u> (2)

(1) The percentage of overlapping 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 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 2015-16 Assessed Valuation:

Total Overlapping Tax and Assessment Debt.....	1.03%
Total Direct Debt (\$55,660,000).....	0.38%
Combined Total Debt.....	1.65%

City of Encinitas
Legal Debt Margin Information
Last Ten Fiscal Years
(in thousands)

	Fiscal Years				
	2007	2008	2009	2010	2011
Assessed valuation	\$ 10,018,457	\$ 10,687,153	\$ 11,257,079	\$ 11,337,568	\$ 11,342,197
Conversion percentage equal to 25% of Assessed valuation	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,504,614	2,671,788	2,814,270	2,834,392	2,835,549
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	375,692	400,768	422,141	425,159	425,332
Total net debt applicable to limit:	49,410	47,960	46,005	44,165	42,641
Legal debt margin	\$ 326,282	\$ 352,808	\$ 376,136	\$ 380,994	\$ 382,691
Total debt applicable to the limit as a percentage of debt limit	13.15%	11.97%	10.90%	10.39%	10.03%

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 the legal debt margin was enacted by the State of California for local governments located within the state.

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

City of Encinitas
Legal Debt Margin Information
Last Ten Fiscal Years
(in thousands)
(Continued)

	Fiscal Years				
	2012	2013	2014	2015	2016
Assessed valuation	\$ 11,497,857	\$ 11,723,929	\$ 12,147,361	\$ 12,870,004	\$ 13,702,972
Conversion percentage equal to 25% of Assessed valuation	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,874,464	2,930,982	3,036,840	3,217,501	3,425,743
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	431,170	439,647	455,526	482,625	513,861
Total net debt applicable to limit:	40,646	46,736	44,547	55,432	53,032
Legal debt margin	\$ 390,524	\$ 392,911	\$ 410,979	\$ 427,193	\$ 460,829
Total debt applicable to the limit as a percentage of debt limit	9.43%	10.63%	9.78%	11.49%	10.32%

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 the that the legal debt margin was enacted by the State of California for local governments located within the state.

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

**City of Encinitas
Historical Debt Service Coverage
Last Five Fiscal Years**

San Dieguito Water District

	2012	2013	2014	2015	2016
Revenues:					
Operating revenues - including connection fees	\$ 13,170,422	\$ 13,789,636	\$ 15,715,575	\$ 15,152,433	\$ 14,851,652
Non-operating revenues	813,610	869,568	827,676	927,526	1,013,706
Gross Revenues	13,984,032	14,659,204	16,543,251	16,079,959	15,865,358
Total Operating & Non-Operating Expenses	12,448,911	12,198,228	14,066,485	15,481,543	13,800,671
Net Income	1,535,121	2,460,976	2,476,766	598,416	2,064,687
Add back.....					
Interest expense	698,908	657,963	622,075	475,775	337,736
Depreciation and amortization expense	1,294,904	1,476,044	1,490,806	2,271,907	1,514,716
Net Revenues Available for Debt Service	3,528,933	4,594,983	4,589,647	3,346,098	3,917,139
Less: Debt Service Paid					
2004 Water Revenue Refunding Bonds - Interest Charges	433,950	408,906	380,731	144,720	-
2004 Water Revenue Refunding Bonds - Principal Payments	595,000	615,000	640,000	665,000	-
2007 Note Payable to Financing Authority - Interest Charges	270,352	256,744	241,344	224,994	211,144
2007 Note Payable to Financing Authority - Principal Payments	365,000	375,000	385,000	405,000	415,000
2014 Water Revenue Refunding Bonds - Interest Charges	-	-	-	106,061	202,400
2014 Water Revenue Refunding Bonds - Principal Payments	-	-	-	-	570,000
Total Debt Service	\$ 1,664,302	\$ 1,655,650	\$ 1,647,075	\$ 1,545,775	\$ 1,398,544
Coverage by Net Revenues Available for Debt Service	212%	278%	279%	216%	280%

Debt service coverage requirement is minimum 115% including connection fees. The above schedules include connection fees in operating revenues.

Cardiff Sanitary Division

	2012	2013	2014	2015	2016
Revenues:					
Operating revenues - including connection fees	\$ \$ 5,039,818	\$ 4,755,573	\$ 4,758,606	\$ 4,615,399	\$ 4,768,651
Non-operating revenues	126,914	39,015	1,216,941	120,668	149,151
Gross Revenues	5,166,732	4,794,588	5,975,547	4,736,067	4,917,802
Total Operating & Non-Operating Expenses	3,310,986	3,310,986	3,189,268	4,371,847	3,949,288
Net Income	1,855,746	1,206,029	2,786,279	364,220	968,514
Add back.....					
Interest expense	248,400	142,898	266,822	109,282	91,757
Depreciation and amortization expense	404,641	800,000	200,459	1,555,955	1,303,272
Net Revenues Available for Debt Service	2,508,787	2,148,927	3,253,560	2,029,457	2,363,543
Less: Debt Service					
2003 Note Payable to SEJPA - Interest Charges	255,000	-	-	-	-
2003 Note Payable to SEJPA - Principal Payments	490,000	-	-	-	-
2011 Note Payable to SEJPA - Interest Charges	29,946	142,898	131,967	109,282	91,757
2011 Note Payable to SEJPA - Principal Payments	25,000	546,540	563,037	579,366	593,530
Total Debt Service	\$ 799,946	\$ 689,438	\$ 695,004	\$ 688,648	\$ 685,287
Coverage by Net Revenues Available for Debt Service	314%	312%	467%	294%	345%

Debt service coverage requirement is minimum 110% including connection fees. The above schedules include connection fees in operating revenue

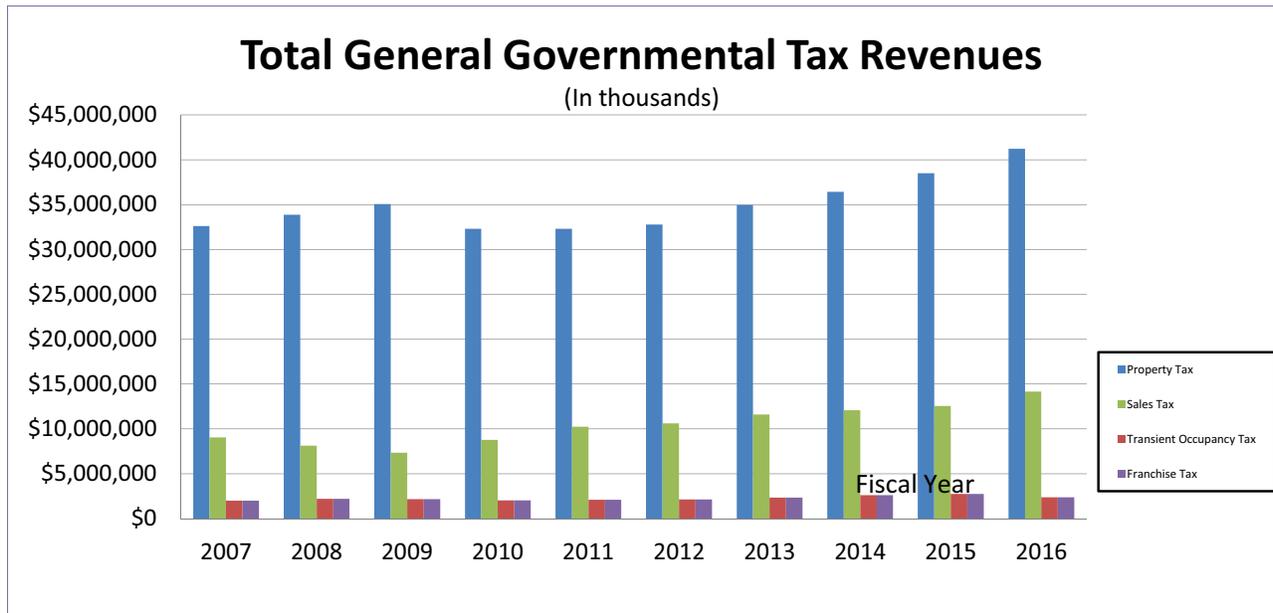
**City of Encinitas
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year Ended June 30	City Population	% of San Diego County Population	% Change from Previous Year	Median Age	Avg. Household Size	Unemployment Rate
2007	63,259	2.0%	2.10%	41.0	2.65	3.2%
2008	63,864	2.0%	0.95%	41.5	2.65	4.2%
2009	59,453	2.0%	-7.42%	41.7	2.69	6.9%
2010	59,628	2.0%	0.29%	41.6	2.45	NA
2011	59,910	2.0%	0.47%	42.0	2.50	7.3%
2012	60,346	2.0%	0.72%	42.2	2.45	9.2%
2013	60,568	2.0%	0.37%	41.5	2.50	5.5%
2014	61,204	2.1%	1.04%	41.5	2.49	5.2%
2015	61,518	2.0%	0.51%	41.5	2.50	4.2%
2016	61,928	1.9%	0.67%	41.5	2.50	4.5%

NOTE: City population figures have been revised to match updated population from the California State Department of Finance starting in 2009 from 2010 census data available.

City of Encinitas
General Governmental Tax Revenue by Source
Last Ten Fiscal Years
(In thousands of dollars)

Fiscal Year Ended June 30	Property Taxes and Transfer Fees	Sales Tax	Transient Occupancy Tax	Franchise Tax	Total Tax Revenue
2007	\$ 32,593,979	\$ 9,043,912	\$ 1,089,065	\$ 2,011,947	44,738,903
2008	33,858,150	8,130,837	1,182,816	2,212,915	45,384,718
2009	35,064,401	7,340,410	1,099,817	2,162,729	45,667,357
2010	32,285,155	8,780,202	1,179,789	2,031,924	44,277,070
2011	32,292,988	10,244,506	1,276,980	2,108,420	45,922,894
2012	32,788,129	10,613,188	1,413,926	2,144,162	46,959,405
2013	34,974,578	11,585,145	1,491,998	2,323,616	50,375,337
2014	36,414,507	12,067,360	1,570,459	2,614,844	52,667,170
2015	38,508,558	12,569,119	1,828,116	2,761,335	55,667,128
2016	41,210,486	14,166,771	1,616,171	2,358,567	59,351,995



CITY OF ENCINITAS
Taxable Sales by Business Type
Last Seven Fiscal Years

	2010	2011	2012	2013	2014	2015	2016
Autos and Transportation	\$ 1,189,413	\$ 1,330,270	\$ 1,427,132	\$ 1,446,737	\$ 1,519,006	\$ 1,638,839	\$ 1,684,618
Building and Construction	818,484	774,109	868,790	820,467	887,182	944,334	980,140
Business and Industry	461,247	537,840	518,699	560,723	573,032	556,835	738,490
Food and Drugs	931,937	945,542	995,511	1,003,491	1,001,942	1,028,085	1,005,870
Fuel and Service Stations	1,146,372	1,351,288	1,569,265	1,577,783	1,559,342	1,500,416	1,382,946
General Consumer Goods	2,836,989	2,818,809	3,117,547	3,165,746	3,355,540	3,476,481	3,535,734
Restaurants and Hotels	1,388,570	1,442,976	1,624,007	1,699,705	1,825,971	1,978,072	2,113,116
Total	\$ 8,773,012	\$ 9,200,834	\$ 10,120,951	\$ 10,274,652	\$ 10,722,015	\$ 11,123,062	\$ 11,440,914

Note: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the City's revenue.

City of Encinitas
Full-Time and Part-Time Employees by Function
Last Five Fiscal Years

Function	Fiscal Years				
	2012	2013	2014	2015	2016
General government	44.55	44.75	44.75	46.75	46.75
Fire department	63.00	63.00	66.00	66.00	69.00
Public works	28.85	29.25	29.55	28.55	28.55
Engineering services	27.42	26.42	27.17	27.17	27.17
Parks and recreation	21.18	21.18	21.18	20.18	20.18
Planning and building	26.75	26.75	27.25	27.25	27.25
Subtotal	211.75	211.35	215.90	215.90	218.90
San Dieguito Water District	25.40	25.00	23.00	24.00	24.00

**City of Encinitas
Operating Indicators by Function
Last Five Fiscal Years**

	2012	2013	2014	2015	2016
San Diego County Sheriff's Dept					
Criminal arrests	1,231	1,548	1,595	1,743	1,997
Traffic arrests	485	383	331	551	263
Traffic accidents	441	372	323	297	274
Traffic citations	11,349	11,381	10,357	13,650	14,873
Calls for service	20,150	20,559	19,394	21,335	22,518
Deputy initiated action	29,862	31,281	29,849	27,339	27,481
Fire:					
Number of emergency fire calls	124	102	383	300	328
Number of EMS/rescue	3,495	3,697	3,806	3,844	4,098
Other	1,737	1,932	1,458	1,265	1,517
Inspections	2,252	2,163	2,143	2,072	2,133
Engineering:					
Number of permits issued	392	269	351	383	436
Parks and recreation:					
Number of recreation class registrations	11,119	11,175	16,236	16,289	15,500
Number of facility rentals	749	421	578	557	538
Planning and building:					
Number of planning permits issued	202	207	298	335	263
Number of new dwelling units issued	121	63	161	135	117
Environmental review	7	6	9	10	4
Appeals	3	5	7	6	11
Plan checks	948	990	1,391	1,737	2,339
Code enforcement complaints	1,270	1,199	1,153	1,063	1,199
Water:					
New connections	79	64	131	69	77
Average daily consumption (millions of gallons)	5.32	5.61	5.71	5.49	4.56
Sewer:					
New connections	44	50	22	53	33
Average daily sewage treatment (millions of gallons)	2.38	2.40	2.36	2.22	2.20

The City of Encinitas contracts with the County of San Diego Sheriff's Department to provide law enforcement services.

City of Encinitas
Capital Asset Statistics by Function
Last Five Fiscal Years

	2012	2013	2014	2015	2016
Law enforcement: *					
Number of sub-stations	1	1	1	1	1
Fire department:					
Fire stations	5	6	6	6	6
Public works:					
Streets (miles)	201	201	201	201	201
Engineering:					
Signalized intersections	63	63	63	63	63
Parks and recreation:					
Community and senior center	1	1	1	1	1
Developed parks	18	18	18	18	18
Undeveloped parks	4	4	4	4	4
Parkland acres	382	382	382	382	382
Habitat/open space acreage	87	87	87	87	87
Marine life refuge	1	1	1	1	1
Trails/streetscapes (miles)	41/10	41/10	41/10	41/10	41/10
Lifeguard towers	7	7	7	7	7
Water:					
Water mains (miles)	168	168	168	168	168
Maximum daily capacity (millions of gallons)	15	15	15	15	15

* The City of Encinitas contracts with the County of San Diego Sheriff's department to provide law enforcement services.

Cardiff Sanitary Division

Summary of Operational Data

The following tables are being presented as supplementary information based on requirements for bonds issued to CSD for continuing bond disclosure certificate.

Table 1

**Cardiff Sanitary Division
Rate Schedule for Annual Sewer Charges
As of June 30, 2016**

<u>Users/Class</u>	<u>Category</u>	<u>Charge</u>	<u>HCF Rate</u>	<u>HCF</u>	<u>Median Charge</u>
New Connections (no prior water consumption history)					
<u>Group I Residential</u>					
Single Family	SF	\$42.72	\$ 4.99	95.90	\$ 521.26
Multi Family	MF	See below	4.99		\$359.70/unit
Trailer Park	TP	See below	4.99		\$359.70/unit
New Connections (no prior water consumption history)					
<u>Non-Residential</u>					
Commercial Group II	See below	See below	\$ 5.24	See below	See below
Commercial Group III	See below	See below	6.83	See below	See below
Commercial Group IV	See below	See below	10.25	See below	See below
Multi Family* and Non-Residential Fixed Meter Charge					
<u>Meter Size</u>	<u>Annual Charge</u>	<u>Meter Size</u>	<u>Annual Charge</u>		
5/8"	\$ 42.72	1-1/2"	\$ 213.60		
3/4"	\$ 64.07	2"	\$ 341.74		
1"	\$ 106.80	3"	\$ 640.78		

* Multi Family = Fixed Meter Charge x 2

Water Consumption Periods To Be Used

Residential = 2 Lowest Periods of Water Consumption For Meter Readings Occurring Between Dec.-May (most recent available 5-year period)

Non-Residential (Commercial) = Water Consumption For Meter Readings Occurring Between July-June of Preceding Year

<u>Users/Class</u>	<u>Sub Category</u>	<u>Unit Cost (perHCF)</u>	<u>Median Annual HCF (New Connections)</u>	<u>Median Usage Charge (New Connections)</u>
Group II Commercial				
Softwater Service	SW	\$ 5.24	-----	
Car Wash	CW	5.24	1,520	\$7,964.80
Office Building	OF	5.24	200	1,048.00
Fire Station	FS	5.24	110	576.40
Professional Building (Doctor)	PB	5.24	160	838.40
Veterinary Clinic	VC	5.24	-----	
Athletic Gymnasium	G	5.24	1,340	7,021.60
Laundromat	L	5.24	990	5,187.60
Department and Retail Store	DRS	5.24	120	628.80
Warehouse	W	5.24	1,050	5,502.00
Hospital, Convalescent Home	HCH	5.24	3,240	16,977.60
Parks	PB	5.24	510	2,672.40
Church-Membership Organization	C	5.24	440	2,305.60
Membership Organization (Non-Church)	MO	5.24	240	1,257.60
Social Services	SS	5.24	160	838.40
Group III Commercial				
Hotels-Motels (without restaurant)	HM	\$ 6.83	890	\$6,078.70
Repair and Service Station	RSS	6.83	70	478.10
Shopping Center	SC	6.83	1,030	7,034.90
Kennel	K	6.83	900	6,147.00
Coffee Shop	CS	6.83	-----	
Amusement Park	AP	6.83	-----	
Nightclub/Bar	NC	6.83	320	2,185.60
Commercial Laundry	CL	6.83	-----	
Manufacturing	M	6.83	180	1,229.40
Lumber Yard	LY	6.83	-----	
Group IV Commercial				
Hotels-Motel (with restaurant)	HM	\$ 10.25	3,130	\$32,082.50
Bakery (wholesale)/Food Processor	BW	10.25	-----	
Supermarket	SM	10.25	1,030	10,557.50
Mortuary	MT	10.25	300	3,075.00
Restaurant	R	10.25	600	6,150.00

(1) Sewer rates are based on water consumption (fixed charge based on meter size and consumption component). The consumption is based on HCF (hundred cubic feet - 748 gallons).

Table 2

**Cardiff Sanitary Division
Historical Service Charges Billed
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Residential (Tax Roll)</u>	<u>Commercial (Tax Roll)</u>	<u>Commercial (Manual)</u>	<u>Total Billed</u>	<u>Single Family Average</u>
2007	\$ 3,904,470	\$ 777,218	\$ 131,872	\$ 4,813,560	\$ 655
2008	3,983,597	739,676	130,386	4,853,659	668
2009	4,092,138	753,503	127,030	4,972,671	682
2010	4,034,670	703,126	128,223	4,866,019	674
2011	3,984,339	628,165	127,210	4,739,715	664
2012	4,058,990	645,560	123,822	4,828,372	676
2013	3,935,414	666,099	126,677	4,728,190	652
2014	3,812,338	599,324	134,910	4,546,572	622
2015	4,033,393	623,032	135,587	4,792,012	610
2016	3,873,157	610,169	135,107	4,618,432	634

Cardiff Sanitary Division bills most customers through the San Diego County property tax billing service. Delinquency rates have been between 1.8%-3.0% during the period presented.

Delinquencies do not apply to direct billings.

Table 3

**Cardiff Sanitary Division
Ten Largest Customers
FY 2015-2016**

<u>Property Owner</u>	<u>Parcel Count</u>	<u>Sewer Service Charges</u>	<u>Percentage of Sewer Charges</u>
Scripps Health	1	\$ 92,755	2.01%
Collwood Pines Apartments LP	4	74,877	1.62%
State of California Parks & Recreation	2	55,352	1.20%
San Deiguito Union High School District	2	44,485	0.96%
Newport Taft Inc	1	30,682	0.66%
944 Regal Road LLC	1	29,344	0.64%
Cardiff Town Center LLC	1	26,365	0.57%
George's Restaurant Inc	1	22,844	0.49%
West Village Inc	1	22,373	0.48%
Deluca Trust	1	19,741	0.43%
Subtotal	15	\$ 418,817	9.07%
Total Billed		\$ 4,618,432	

Source: Cardiff Sanitary Division

Table 4

**Cardiff Sanitary Division
Historical Service Connections
Last Ten Fiscal Years**

<u>Year</u>	<u>Total Connections (Billed Parcels)</u>	<u>Residential EDU's</u>	<u>Commercial Industrial EDU's</u>	<u>Total EDU's</u>
2007	6,241	6,840	1,112	7,952
2008	6,283	6,976	1,122	8,097
2009	6,312	6,990	1,124	8,114
2010	6,317	7,011	1,124	8,136
2011	6,329	7,033	1,124	8,187
2012	6,334	7,067	1,154	8,221
2013	6,365	7,083	1,174	8,257
2014	6,375	7,126	1,176	8,302
2015	6,394	7,132	1,187	8,319
2016	6,416	7,157	1,187	8,344

Source: Cardiff Sanitary Division



San Dieguito Water District

Summary of Operational Data

The following tables are being presented as supplementary information based on requirements for bonds issued by SDWD for continuing bond disclosure certificate.

Table 1

**San Dieguito Water District
Schedule of Water Rates
As of June 30, 2016**

<u>Customer Class</u>	<u>Residential Rate Tier</u>	<u>Rate (1)</u>	
		<u>Potable</u>	<u>Recycled</u>
Single-family residential	0-12 units	\$ 2.92	
	13-20 units	4.62	
	21-40 units	5.72	
	41+ units	6.50	
Multi-family residential (per dwelling)	0-8 units	2.92	
	9-12 units	4.62	
	13-16 units	5.72	
	17+ units	6.50	
Agriculture	Uniform	4.95	\$ 3.80
Commercial	Uniform	4.95	3.80
Government	Uniform	5.42	4.17
Public	Uniform	5.42	4.17
Landscaping	Uniform	5.70	4.39
Construction	Uniform	5.81	4.47

Note: Drought rates associated with a 10% reduction in water use in effect on June 30, 2016, per Board action.

(1) Per Unit (one hundred cubic feet or 748 gallons)

Source: San Dieguito Water District

Table 2

**San Dieguito Water District
Bi-Monthly Meter Service Availability Charges (2)
As of June 30, 2016**

<u>Meter Size</u>	<u>Water Meter Service Availability Charge</u>	<u>Infrastructure Access Charge</u>	<u>Fire Meter Service Availability Charge</u>
5/8" & 3/4"	\$ 37.39	\$ 5.52	\$ 7.95
1"	55.05	8.83	7.95
1-1/2"	98.82	16.56	8.97
2"	151.55	28.70	15.63
3"	274.67	52.99	39.55
4"	450.52	90.52	80.79
6"	889.76	165.60	228.82
8"	1,417.05	287.04	484.14

(2) San Dieguito Water District charges a bi-monthly service availability charge, which covers the costs for the maintenance of meters, water lines, and storage facilities, to ensure that water is available upon demand. This charge also covers customer service costs for meter reading and billing. The Infrastructure Access Charge is levied by the San Diego County Water Authority and is collected from the customer by the District.

Source: San Dieguito Water District

Table 3

**San Dieguito Water District
Historic Potable Water System Revenues
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Potable Water Sales</u>	<u>Percentage Change (3)</u>	<u>Meter Availability Charge</u>	<u>Percent Change (3)</u>
2007	\$ 7,579,205	17.2%	\$ 2,251,011	9.2%
2008	7,717,818	1.8%	2,404,547	6.8%
2009	7,525,927	-2.5%	2,453,075	2.0%
2010	7,146,854	-5.0%	2,501,264	2.0%
2011	8,205,876	14.8%	3,007,127	20.2%
2012	8,528,418	3.9%	3,196,605	6.3%
2013	9,236,462	8.3%	3,087,794	-3.4%
2014	10,649,157	15.3%	3,227,823	4.5%
2015	9,728,434	-8.6%	3,415,227	5.8%
2016	9,503,108	-2.3%	3,503,933	2.6%

(3) Due to the varying number of billing cycles in a fiscal year, changes year-over-year may not be exactly comparable.

Source: San Dieguito Water District

Table 4

**San Dieguito Water District
Historic Recycled Water System Revenues
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Recycle Water Sales</u>	<u>Percent Change</u>	<u>Meter Availability Charges (4)</u>	<u>Percent Change</u>
2007	\$ 596,299	31.3%	\$ -	N/A
2008	600,401	0.7%	-	N/A
2009	663,036	10.4%	-	N/A
2010	537,654	-18.9%	-	N/A
2011	523,397	-2.7%	-	N/A
2012	422,925	-19.2%	-	N/A
2013	400,244	-5.4%	-	N/A
2014	460,383	15.0%	60,048	N/A
2015	648,398	40.8%	80,585	34.2%
2016	702,301	8.3%	85,149	5.7%

(4) The District first implemented a meter availability charge for recycled customers on September 1, 2013.

Source: San Dieguito Water District

Table 5

**San Dieguito Water District
Summary of Water Production by Source
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Potable Production (6)</u>			<u>Recycled Water</u>	<u>Total Production</u>
	<u>Local Water</u>	<u>Imported Water</u>	<u>Total Potable</u>		
2007	2,706	5,692	8,398	708	9,106
2008	3,539	3,753	7,292	676	7,968
2009	3,869	3,369	7,237	694	7,931
2010	4,399	2,156	6,555	498	7,053
2011	4,434	1,901	6,335	511	6,846
2012	3,719	2,663	6,382	578 (6)	6,960
2013	4,200	2,395	6,595	678 (6)	7,273
2014	1,136	5,598	6,734	692	7,426
2015	603	5,726	6,329	736	7,065
2016	1,400	3,839	5,239	628	5,867

(5) Potable water production is defined as water either produced locally or purchased from imported sources (expressed in acre-feet).

Table 6

**San Dieguito Water District
Summary of Water Deliveries by Source
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Potable</u>	<u>Percent Increase</u>	<u>Recycled</u>	<u>Percent Increase</u>
2007	7,592	4.3%	708	18.0%
2008	6,753	-11.1%	676	-4.5%
2009	6,463	-4.3%	694	2.7%
2010	5,649	-12.6%	498	-28.2%
2011	5,425	-4.0%	511	2.6%
2012	5,957	9.8%	578 (6)	13.1%
2013	6,284	5.5%	678 (6)	17.3%
2014	6,449	2.6%	692	2.1%
2015	6,134	-4.9%	736	6.4%
2016	5,112	-16.7%	628	-14.7%

(6) Since 2012, Recycled Water Production and Delivery figures are revised to include water provided to the Encinitas Ranch Golf Authority (ERGA). Beginning in 2012, the San Elijo Joint Powers Authority (SEJPA) began directly providing recycled water to ERGA and the District ceased selling recycled water to ERGA. The recycled water provided to ERGA credits towards the District's production and delivery figures as ERGA falls within the District's sphere of influence.

Note: The differences between potable water production and deliveries represents water loss in the distribution system and/or water pumped or used through the fire distribution system.

Source: San Dieguito Water District

Table 7

**San Dieguito Water District
Sales by Customer Class
As of June 30, 2016**

<u>Customer Description</u>	<u>Acre-Feet Sold</u>	<u>Percent of Water Sold</u>
Agriculture	98	1.9%
Commercial	475	9.3%
Construction	9	0.2%
Government	21	0.4%
Landscaping	263	5.2%
Multi-Family Residential	1,038	20.3%
Pooled Meters	354	6.9%
Public	69	1.3%
Single-Family Residential	2,787	54.5%
Subtotal - Top 10 Customers	<u>5,114</u>	<u>100.0%</u>

Source: San Dieguito Water District

Table 8

**San Dieguito Water District
Total Service Connections by Category
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Potable</u>	<u>Percent Increase</u>	<u>Recycled</u>	<u>Percent Increase</u>
2007	11,338	-3.3%	56	-31.7%
2008	11,364	0.2%	59	5.4%
2009	11,370	0.1%	68	15.3%
2010	11,388	0.2%	73	7.4%
2011	11,397	0.1%	72	-1.4%
2012	11,476	0.7%	74	2.8%
2013	11,502	0.2%	77	4.1%
2014	11,610	0.9%	77	0.0%
2015	11,644	0.3%	81	5.2%
2016	11,721	0.7%	82	1.2%

Source: San Dieguito Water District

- (8) The decline of one connection in 2011 reflects the change in the contract arrangement with the Encinitas Ranch Golf Course.



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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture of Trust and the Second Amended and Restated Lease Agreement which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.

DEFINITIONS; RULES OF INTERPRETATION

Definitions

Unless the context otherwise requires, the terms defined in the Indenture shall, for all purposes of the Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document mentioned in the Indenture, have the meanings specified therein, to be equally applicable to both the singular and plural forms of any of the terms defined. In addition, all capitalized terms used in the Indenture and not otherwise defined in the Indenture shall have the respective meanings given such terms in the Lease Agreement.

“Authority” means the Encinitas Public Financing Authority, a joint powers authority duly organized and existing under the laws of the State.

“Authorized Representative” means: (a) with respect to the Authority, its Chairperson, Vice Chairperson, Executive Director, Treasurer or Secretary or any other person designated as an Authorized Representative of the Authority by a Written Certificate of the Authority signed by its Chairperson or Vice Chairperson, Executive Director or Treasurer and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, Deputy Mayor, City Manager, City Clerk, Finance Director or any other person designated as an Authorized Representative of the City by a Written Certificate of the City signed by its Mayor, Deputy Mayor, City Manager or Finance Director and filed with the Authority and the Trustee.

“Bond Counsel” means (a) Best Best & Krieger LLP, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

“Bond Proceeds Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Bond Year” means each twelve-month period extending from April 2 in one calendar year to April 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year shall commence on the Closing Date and extend to and including April 1, 2017.

“Bonds” means the \$11,955,000 aggregate principal amount of Encinitas Public Financing Authority 2017 Lease Revenue Refunding Bonds, Series A (Park Project) authorized by and at any time Outstanding pursuant to the Indenture.

“Book-Entry Depository” means DTC or any successor as Book-Entry Depository for the Bonds, appointed pursuant to the Indenture.

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the city in which the Office of the Trustee is located.

“City” means the City of Encinitas, a municipal corporation organized under the laws of the State.

“Closing Date” means March 2, 2017, being the date of delivery of the Bonds to the Original Purchaser.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority, initial fees and expenses of the Trustee and its counsel, title insurance premiums, appraisal fees, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts: (a) the principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period; (b) the minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking fund deposits in such period; and (c) the interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Escrow Agreement” means the Escrow Deposit and Trust Agreement, dated as of March 1, 2017, among the City, the Authority and the Escrow Bank.

“Escrow Bank” means MUFG Union Bank, N.A., or its successor in interest, pursuant to the Escrow Agreement.

“Escrow Fund” means the account of that name established under the Escrow Agreement.

“Event of Default” means any of the events specified in the Indenture.

“Fair Market Value” means, with respect to any investment, the price at which a willing buyer would purchase such investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security - State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

“Federal Securities” means:

(a) any direct 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), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America;

(b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America; and

(c) pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice: and (i) which are rated, based on the escrow, in the highest rating category of S&P and Moody’s or any successors thereto; or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or obligations described in paragraphs (a) or (b) above, which fund may be applied only to the payment of such principal of 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 (B) which fund is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in the Indenture on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions of the Indenture.

“Independent Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

“Information Services” means in accordance with then-current guidelines of the Securities and Exchange Commission, the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>), or such service or services as the Authority may designate in a certificate delivered to the Trustee.

“Insurance and Condemnation Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Interest Account” means the account by that name established in the Bond Fund pursuant to the Indenture.

“Interest Payment Date” means each April 1 and October 1 commencing October 1, 2017.

“Lease Agreement” means that certain Second Amended and Restated Lease Agreement, dated as of March 1, 2017, by and between the Authority, as lessor, and the City, as lessee.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Proceeds” means all amounts derived from any policy of casualty insurance or title insurance with respect to the Leased Premises, or the proceeds of any taking of the Leased Premises or any portion thereof in eminent domain proceedings (including sale under threat of such proceedings), to the extent remaining after payment therefrom of all expenses incurred in the collection and administration thereof.

“Office” means with respect to the Trustee, the corporate trust office of the Trustee at 445 S. Figueroa Street, Suite 401, Los Angeles, California 90071, or at such other or additional offices as may be specified in writing to the Authority and the City.

“Original Purchaser” means Fidelity Capital Markets, as the original purchasers of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions thereof) described in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner”, whenever used in the Indenture with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

1. Direct 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) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- b. Federal Housing Administration Debentures (FHA)
- c. General Services Administration
Participation certificates
- d. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA - guaranteed mortgage-backed bonds
GHMA - guaranteed pass-through obligations (participation certificates)
(not acceptable for certain cash-flow sensitive issues.)
- e. U.S. Maritime Administration
Guaranteed Title XI financing

- f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Federal Home Loan Bank System
Senior debt obligations (Consolidated debt obligations)
- b. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mae”)
Participation Certificates (Mortgage-backed securities)
Senior debt obligations
- c. Federal National Mortgage Association (FNMA or “Fannie Mae”) Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal).
- d. Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations
- e. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
- f. Farm Credit System
Consolidated systemwide bonds and notes

4. Money market funds registered under the Federal Investment Company of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAAm, or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2 including funds for which the Trustee or an affiliate advises or services, but excluding such funds with a floating net asset value.

5. Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. CD’s must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose term obligations are rated “A-1” or better by S&P and “Prime-1” by Moody’s.

The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF or collateralized by Permitted Investments described in clause (1) for amounts in excess of insured amounts.

7. Investment agreements with a domestic or foreign bank or corporation, the long-term debt or financial strength of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guarantee insurance company, financial strength, of the guarantor is rated in at least the “double A” category by Moody’s and S&P; provided, that, by the terms of the investment agreement:

- a. interest payments are to be made to the Trustee at all times and in the amounts as necessary to pay debt service, or for the Reserve Account, applied as directed in the Indenture (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

b. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Issuer and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c. the investment agreement shall state that it is the unconditional and general obligation of; and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

d. the Issuer or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Issuer and Trustee) that such investment agreement is legal, valid, binding and unenforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in a form and substance acceptable by the Issuer;

e. the investment agreement shall provide that if during its term

(i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (a) collateralize the investment agreement by delivering or transferring in accordance with the applicable state and federal laws (other than by means of entries on the provider's books) to the Issuer, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (b) repay the principal of and accrued but unpaid interest on the investment (including such other amounts as are required to permit the Trustee to receive the initially contemplated yield through the term of the Agreement), or (c) assign its obligations thereunder to a financial counter-party, acceptable to the Issuer, and rated in the double A category by both Moody's and S&P; and

(ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Issuer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Issuer or Trustee; and

f. the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); or

g. the investment agreement must provide that if during its term

(i) the provider shall default in its payment obligations, the provider's obligation under the investment agreement shall, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Issuer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate; and

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's

obligations shall automatically be accelerated and the amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate.

8. Commercial paper rated “Prime-1” by Moody’s and “A-1+” or better by S&P.

9. Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in the highest long-term rating categories assigned by such agencies unless such obligations are issued by the State, in which case such obligations are rated in one of the two highest long-term rating categories of S&P and Moody’s.

10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1+” or better by S&P.

11. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

a. Repos must be between the municipal entity and a dealer bank or securities firm.

(1) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by Standard & Poor’s Ratings Group and Moody’, or

(2) Banks rated “A” or above by Standard & Poor’s Ratings Group and Moody’s Investor Services.

b. The written repo contract must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments.

(b) Federal agencies backed by the full faith and credit of the U.S. Government (and FNMA & FHLMC)

(2) The term of the repo may be up to 30 years

(3) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) The trustee has perfected first priority security interest in the collateral.

(5) Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.

(6) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the trustee to liquidate collateral.

(7) Valuation of Collateral

- (a) The securities must be valued weekly, marked-to-market at a current market price plus interest.
- (b) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

c. Legal opinion which must be delivered to the municipal entity:

Repo meets guidelines under state law for legal investment of public funds.

12. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

13. State of California Local Agency Investment Fund (LAIF).

“Principal Account” means the account by that name established in the Bond Fund pursuant to the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month preceding such Interest Payment Date.

“Redemption Fund” means the fund by that name established pursuant to the Indenture.

“Registration Books” means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

“Representation Letter” means the letter of representations from the Authority to, or other instrument or agreement of the Authority with, a Book-Entry Depository in which the Authority, among other things, makes certain representations to such Depository with respect to the Bonds, the payment thereof and delivery of notices with respect thereto.

“Revenues” means: (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments, any late charges, and whether paid from any source), but excluding any amounts payable under the Lease Agreement; and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

“S&P” means Standard & Poor’s Global Ratings Services, a Standard & Poor’s Financial Services LLC, its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee.

“Serial Bonds” means the Bonds maturing on April 1 in each of the years 2017 through 2028, inclusive, and April 1, 2031.

“Sinking Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“State” means the State of California.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Code” means the Internal Revenue Code of 1986, as amended.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Sections 103 and 141 through 150, inclusive, of the Tax Code.

“Term Bonds” means the Bonds maturing on April 1, 2030.

“Trustee” means MUFG Union Bank, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture.

“Undertaking to Provide Continuing Disclosure” means, as applicable, that certain Certificate of the Authority or the City, as applicable, by that name and dated as of the Closing Date and referred to, in the case of the Authority, in the Indenture, and in the case of the City, in the Lease Agreement.

“Written Certificate”, “Written Request” and “Written Requisition” of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority or the City by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“2010 Bonds” means the \$19,530,000 original principal amount of Encinitas Public Financing Authority 2010 Lease Revenue Refunding Bonds, Series A (Park Project).

“2010 Indenture” means the Indenture of Trust, dated as of August 1, 2010, among the Authority, the City and the 2010 Trustee and relating to the 2010 Bonds.

“2010 Project Fund” means Project Fund established pursuant to the Indenture.

“2010 Trustee” means MUFG Union Bank, N.A., as Trustee under the 2010 Indenture.

Interpretation

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections in the Indenture and the table of contents thereof are solely for convenience of reference, do not constitute a part thereof and shall not affect the meaning, construction or effect thereof.

(c) All references in the Indenture to “Articles”, “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Indenture; the words “herein”, “hereof”, “hereby”,

“hereunder” and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section or subdivision thereof.

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Establishment and Application of Costs of Issuance Fund

The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund.” The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Written Requisitions of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On September 1, 2017, or upon the earlier Written Request of the Authority, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Interest Account and the Costs of Issuance Fund shall be closed.

Refunding Fund

The Trustee shall establish, maintain and hold in trust a separate fund to be known as the “Refunding Fund”. The Trustee shall disburse moneys in the Refunding Fund immediately on the Closing Date to the Escrow Bank and the Refunding Fund shall be closed.

Validity of Bonds

The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Lease Agreement. The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

REVENUES; FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Pledge and Assignment; Bond Fund

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are hereby pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the rights of the Authority in the Lease Agreement (other than the rights of the Authority under the Indenture). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the Lease Agreement. The Trustee shall deposit all Revenues so received in the Bond Fund which the Trustee shall establish, maintain and hold in trust as a separate fund.

Allocation of Revenues

On or before each date on which principal of or interest on the Bonds becomes due and payable, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, 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) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date.

(c) The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on such date, if any, pursuant to the Indenture.

Application of Interest Account

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

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Application of Sinking Account

All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to the Indenture.

Application of Redemption Fund

When required the Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds to be redeemed pursuant to the Indenture; provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Written Request of the Authority received prior to the selection of Bonds for redemption, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Insurance and Condemnation Fund

(a) Establishment of Fund. Upon the receipt of any proceeds of insurance or eminent domain with respect to any portion of the Leased Premises, the Trustee shall establish and maintain a separate Insurance and Condemnation Fund, to be held and applied as set forth in the Indenture.

(b) Application of Insurance Proceeds. Any proceeds of insurance against accident to or destruction of the Facilities collected by the City in the event of any such accident or destruction shall be applied in accordance with the Lease Agreement. The City shall cause any such proceeds to be paid to the Trustee for deposit in the Insurance and Condemnation Fund. If the City fails to determine and notify the Trustee in writing of its determination, within forty-five (45) days following the date of such deposit, to replace, repair, restore, modify or improve the Facilities, then such proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds pursuant to the Indenture; provided, however, that such redemption will occur only if the fair rental value of the remaining portion of the Leased Premises is sufficient to allow the City to continue to make Lease Payments in amounts sufficient to pay debt service on the Bonds that remain Outstanding after such redemption. Notwithstanding the foregoing sentence, however, in the event of damage or destruction of the Facilities in full, the proceeds of such insurance shall be used by the City to rebuild or replace the Facilities if such proceeds are not sufficient, together with other available funds then held by the Trustee, to redeem all of the Outstanding Bonds. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Facilities by the City, upon receipt of Written Requisitions of the City as agent for the Authority (i) stating with respect to each payment to be made (A) the requisition number, (B) the name and address of the person to whom payment is due, (C) the amount to be paid and (D) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal; (ii) specifying in reasonable detail the nature of the obligation; and (iii) accompanied by a bill or a statement of account for such obligation. The Trustee may conclusively rely on any such Written Requisitions. Any balance of the proceeds remaining after such work has been completed as certified by the City as agent for the Authority shall be paid to the City.

(c) Application of Eminent Domain Proceeds. If all or any part of the Leased Premises shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the proceeds therefrom shall be applied in accordance with the Lease Agreement. The City shall cause any such proceeds to be paid to the Trustee for deposit in the Insurance and Condemnation Fund, to be applied and disbursed by the Trustee as follows:

(i) If the City has not given written notice to the Trustee, within forty-five (45) days following the date on which such proceeds are deposited with the Trustee, of its determination that such proceeds are needed for the replacement of the Leased Premises or such portion thereof, the Trustee shall transfer such proceeds to the Redemption Fund to be applied towards the redemption of the Bonds pursuant to the Indenture.

(ii) If the City has given written notice to the Trustee, within forty-five (45) days following the date on which such proceeds are deposited with the Trustee, of its determination that such proceeds are needed for replacement of the Leased Premises or such portion thereof, the Trustee shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such replacement, upon the filing of Written Requisitions of the City as agent for the Authority in the form and containing the provisions set forth in the Indenture and upon which the Trustee may conclusively rely.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments which mature not later than the date such moneys are estimated by the Authority to be required. Such investments shall be directed by the Authority pursuant to a Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which Written Request shall certify that the investments constitute Permitted Investments). In the absence of any such directions from the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (4) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have

received a written direction specifying a specific money market fund and, if no such written direction is so received, the Trustee shall hold such moneys uninvested. Permitted Investments purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the Bond Fund. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture. The Trustee, or an affiliate, may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture. Permitted Investments that are registered securities shall be registered in the name of the Trustee.

The Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing proceeds of the Bonds, shall be acquired and disposed of at the Fair Market Value thereof.

Valuation and Disposition of Investments

For the purpose of determining the amount in any fund or account, all Permitted Investments credited to such fund or account shall be valued at the Fair Market Value thereof; provided, however, that investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at their present value (within the meaning of Section 148 of the Tax Code), consisting generally of the cost thereof. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Authority.

PARTICULAR COVENANTS

Punctual Payment

The Authority shall punctually pay or cause to be paid the principal of and interest and premium (if any) on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds

The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances

The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall 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 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements

The Trustee shall 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 shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Lease Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during business hours, upon reasonable notice, and under reasonable circumstances. The Trustee shall furnish the Authority a monthly cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the Authority, provided that the Trustee shall not be obligated to deliver any accounting of any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date. Upon the Authority's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

Additional Obligations

The Authority may issue additional bonds, notes or other indebtedness which are payable out of the Revenues in whole or in part pursuant to the Indenture, for the purpose of financing any construction of a new city hall or for any other municipal purpose, so long as no Event of Default under the Indenture has occurred and is continuing and provided that the conditions of the Lease Agreement have been satisfied.

Tax Covenants

(a) Private Activity Bond Limitation. The Authority shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

(d) Maintenance of Tax-Exemption. The Authority shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

(e) Rebate of Excess Investment Earnings. The Authority shall calculate or cause to be calculated all amounts of excess investment earnings with respect to the Bonds which are required to be rebated to the United States of America pursuant to Section 148(f) of the Tax Code, at the times and in the manner required pursuant to the Tax Code. The Authority shall pay or cause to be paid when due an amount equal to excess investment earnings to the United States of America in such amounts, at such times and in such manner as may be required pursuant to the Tax Code, such payments to be made from amounts provided by the City for such purpose pursuant to the Lease Agreement. The Authority shall keep or cause to be kept, and retain or cause to be retained for a period of six (6) years following the retirement of the Bonds, records of the determinations made pursuant to the Indenture. The Trustee shall have no duty to monitor the compliance by the Authority with any of the covenants contained in the Indenture.

Lease Agreement

Subject to the provisions of the Indenture, the Trustee shall promptly collect all amounts due from the City pursuant to the Lease Agreement. Subject to the provisions of the Indenture, the Trustee shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City under the Lease Agreement.

Waiver of Laws

The Authority shall 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 hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

Further Assurances

The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming the rights and benefits provided in the Indenture to the Bond Owners.

Leased Premises

If an event of abatement occurs pursuant to the Lease Agreement, the City shall use its best efforts to the extent permissible under the laws of the State of California to make all lease payments in excess of the amount of rental interruption insurance, if necessary, in order to ensure the reconstruction, repair, restoration, modification or improvement of the Leased Premises.

EVENTS OF DEFAULT AND REMEDIES

Events of Default

The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an event of default under and as defined in the Lease Agreement.

No Acceleration Upon Event of Default

If any Event of Default shall occur there shall not be any right on the part of the Trustee or the Bondholders to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately.

Application of Revenues and Other Funds After Default

Notwithstanding anything to the contrary contained in the Indenture, if an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and 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 Bonds and payment of reasonable fees, charges 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 the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First. To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second. To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners

The Trustee is hereby irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the

Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, the Trustee shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem 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 granted therein, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture or any other law. Upon instituting such proceeding, the Trustee shall 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 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Notwithstanding any other provision of the Indenture in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Bondholders as if there were no Insurance Policy.

Bond Owners' Direction of Proceedings

Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall 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 conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would expose it to liability.

Limitation on Bond Owners' Right to Sue

Notwithstanding any other provision of the Indenture, no Owner of any Bonds shall 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, the Lease Agreement or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall 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 shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Lease Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner

provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority

Nothing in the Indenture or in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest and premium (if any) on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets therein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings

In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive

No remedy conferred upon or reserved in the Indenture to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default

No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee

(a) The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture and no implied duties or covenants shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Authority may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and the Authority shall remove the Trustee if at any time requested to do so by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take 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 the City and thereupon shall appoint a successor Trustee by an instrument in writing. Any such removal shall be made upon at least thirty (30) days' prior written notice to the Trustee. Upon giving such written notice of removal, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority, to the City, and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that no removal resignation or termination of the Trustee shall take effect until a successor shall be appointed. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the Authority shall, and the Trustee 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, shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth therein. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Authority shall mail or cause the successor Trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

(e) Any Trustee appointed under the Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, authorized under such laws to exercise corporate trust powers, which shall have (or, in the case of a corporation included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least Seventy-Five Million Dollars (\$75,000,000), and subject to supervision or examination by federal or State agency, so long as any Bonds are Outstanding. If such corporation publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining agency above referred to then for the purpose of the Indenture, the combined capital and surplus of such corporation shall 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 shall cease to be eligible in accordance with the provisions of the Indenture, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Merger or Consolidation

Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible under the Indenture shall be

the successor to such Trustee, without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee

(a) The recitals of facts in the Indenture and in the Bonds contained shall not be taken as statements of the Authority, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture, the Bonds or the Lease Agreement, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations therein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall 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 in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee shall 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 shall not be deemed to have knowledge of any 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 under the Indenture unless and until it shall have actual knowledge thereof, or shall have received written notice thereof, at its Office. Except as otherwise expressly provided in the Indenture, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the City of any of the terms, conditions, covenants or agreements in the Indenture, under the Lease Agreement or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the City and the Authority of the terms, conditions, covenants or agreements set forth in the Lease Agreement, other than the covenants of the City to make Additional Lease Payments to the Trustee when due and to file with the Trustee, when due, such reports and certifications as the City is required to file with the Trustee thereunder.

(f) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers, if it is not assured to its satisfaction that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(g) The Trustee may execute any of the trusts or powers under the Indenture or perform any duties thereunder either directly or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under the Indenture.

(h) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture shall be construed to impose a duty to exercise such power, right or remedy.

(i) Whether or not therein expressly so provided, every provision of the Indenture and the Lease Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of the Indenture.

(j) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Indenture.

(k) The Trustee makes no representation or warranty, expressed or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose for the use contemplated by the Authority or the City of the Leased Premises. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Lease Agreement or the Indenture for the existence, furnishing or use of the Leased Premises.

(l) The Trustee may establish such funds and accounts under the Indenture as it deems necessary or appropriate to perform its obligations under the Indenture.

Right to Rely on Documents

The Trustee shall be protected in acting upon any notice, resolution, request, requisition, consent, order, certificate, report, opinion, bonds or other paper or document believed by them to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance therewith.

The Trustee may treat the Owners of the Bonds appearing in the Registration Books as the absolute owners of the Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem 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 be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Written Certificate, Written Request or Written Requisition of the Authority or the City, and such Written Certificate, Written Request or Written Requisition shall 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 Written Certificate, Written Request or Written Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable.

If the Trustee acts on any communication (including, but not limited to, communication with respect to the delivery of securities or the wire transfer of funds) sent by electronic transmission, the Trustee, absent negligence or willful misconduct, will not be responsible or liable in the event such communication is not an authorized or authentic communication of the party involved or is not in the form the party involved, sent or intended to send (whether due to fraud, distortion or otherwise). 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 such instructions conflict or are inconsistent with a subsequent written instruction. The Authority agrees to assume all risks arising out of the use of such electronic transmission to submit instructions and directions 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.

The Trustee shall not be considered in breach of or in default in its obligations under the Indenture and will not incur any liability for not performing any act or fulfilling any duty, obligation or responsibility under the Indenture, or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, natural catastrophes, civil or military disturbances, loss or malfunctions of utilities, any act of God or war, terrorism or the unavailability of the Federal Reserve Bank or other wire or communication facility, epidemics, quarantine restrictions, strikes, riot, or any similar event and/or occurrences beyond the control of the Trustee.

Preservation and Inspection of Documents

All documents received by the Trustee under the provisions of the Indenture shall be retained in its respective possession pursuant to its records retention policies and shall be subject at all reasonable times to the inspection of the Authority, the City and any Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification

The Authority shall pay to the Trustee (solely from Miscellaneous Rent) from time to time the compensation for all services rendered under the Indenture and also all reasonable expenses and disbursements, incurred in and about the performance of its powers and duties under the Indenture.

The Authority shall indemnify, defend and hold harmless the Trustee and its officers, directors, agents and employees, against any loss, liability or expense incurred without negligence or willful misconduct on its part, arising out of or in connection with the acceptance or administration of the trust, 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. As security for the performance of the obligations of the Authority under the Indenture and the obligation of the City to pay Miscellaneous Rent to the Trustee, the Trustee shall have a lien prior to the lien of the Bonds upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of or interest on particular Bonds. The rights of the Trustee and the obligations of the Authority under the Indenture shall survive the discharge of the Bonds and the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendments Permitted

(a) The Indenture and the rights and obligations of the Authority and of the Owners of the 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 Authority and the Trustee may enter into when the written consents of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect 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 therein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the

Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

(b) The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the interests of the Bond Owners, in the opinion of Bond Counsel filed with the Trustee;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Tax Code; or

(v) to facilitate the issuance of additional bonds of the Authority secured by Lease Payments of the City pursuant to the Lease Agreement.

(c) The Trustee may in its discretion, but shall not be 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 shall 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 from gross income for purposes of federal income taxes of interest on the Bonds.

Effect of Supplemental Indenture

Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds

Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his 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 shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Amendment of Particular Bonds

The provisions of the Indenture shall not prevent, any Bond Owner from accepting any amendment as to the particular Bonds held by him.

DEFEASANCE

Discharge of Indenture

Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

- (a) by paying or causing to be paid the principal of and interest and premium (if any) on such 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 such Bonds; or
- (c) by delivering to the Trustee, for cancellation by it, all of such Bonds.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to

maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall 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 Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Deposit of Money or Securities with Trustee

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds and all unpaid interest thereon to the redemption date; or

(b) non-callable Federal Securities, the principal of and interest on which when due will, in the written opinion of an Independent Accountant filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of and interest and premium (if any) on the Bonds to be paid or redeemed, as such principal, interest and premium become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the Authority) to apply such money to the payment of such principal, interest and premium (if any) with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Accountant's opinion referred to above).

Unclaimed Funds

Notwithstanding any provisions of the Indenture, and subject to applicable provisions of State law, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds and remaining unclaimed for two (2) years after the principal of such Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when such Bonds became due and payable, shall be repaid to the Authority free from the trusts created by the Indenture upon receipt of a Written Request of the Authority, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided/ however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the City) first mail to the Owners of Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

MISCELLANEOUS

Liability of Authority Limited to Revenues

Notwithstanding anything in the Indenture or in the Bonds contained, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes of the Indenture any funds of the Authority which may be made available to it for such purposes.

Limitation of Rights to Parties and Bond Owners

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision contained therein; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

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 shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of the Indenture and for the protection of the security of the Bonds and the rights of every Owner thereof.

Waiver of 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 shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Destruction of Bonds

Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the Authority of any Bonds, the Trustee shall, in lieu of such cancellation and delivery, destroy such Bonds and deliver a certificate of such destruction to the Authority.

Severability of Invalid Provisions

If any one or more of the provisions contained in the Indenture or in the Bonds shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in the Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained in the Indenture. The Authority hereby declares that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase of the Indenture and authorized the issuance of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Evidence of Rights of Bond Owners

Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the Authority 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 Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in accordance therewith or reliance thereon.

Disqualified Bonds

In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are known by the Trustee to be owned or held by or for the account of the Authority or the City, or by any other obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or the City or any other obligor on the Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of the Indenture if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such 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 Authority or the City or any other obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Money Held for Particular Bonds

The money held by the Trustee for the payment of the interest or principal due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto, subject, however, to the provisions of the Indenture but without any liability for interest thereon.

Waiver of Personal Liability

No member, officer, agent or employee of the Authority shall be individually or personally liable for the payment of the principal of or interest or premium (if any) on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing contained in the Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Benefit of Parties

Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Authority, the Trustee, and the registered Owners of the Bonds, any right, remedy or claim under or by reason of the Indenture or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Trustee and the registered Owners of the Bonds.

Successor Is Deemed Included in All References to Predecessor

Whenever in the Indenture either the Authority and the Trustee are named or referred to, such reference shall 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 Authority and the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Execution in Several Counterparts

The Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Governing Law

The Indenture shall be governed by and construed in accordance with the laws of the State.

SECOND AMENDED AND RESTATED LEASE AGREEMENT

DEFINITIONS

Unless the context clearly otherwise requires or unless otherwise defined in the Lease Agreement, the capitalized terms in the Lease Agreement shall have the respective meanings specified in the Indenture. In addition, the following terms heretofore defined in the Lease Agreement and the following terms defined in the Lease Agreement shall, for all purposes of the Lease Agreement, have the respective meanings specified in the Lease Agreement.

“Event of Default” means any of the events of default defined as such in the Lease Agreement.

“Facilities” means all of the buildings, improvements and facilities at any time situated on the Site and described in any amendment to the Lease Agreement thereto and by reference incorporated therein.

“Fiscal Year” means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period established by the City as its fiscal year pursuant to written notice filed with the Authority and the Trustee.

“Hazardous Substance” means any substance, pollutant or contamination included in such (or any similar) term under any federal, state or local statute, law, ordinance, code or regulation now in effect or hereafter enacted or amended.

“Indenture” means the Indenture of Trust dated as of March 1, 2017, by and between the Authority and the Trustee, together with any duly authorized and executed amendments thereto.

“Lease Payment Date” means any Interest Payment Date.

“Lease Payments” means the amounts payable by the City pursuant to the Lease Agreement, including any prepayment thereof pursuant hereto and including any amounts payable upon a delinquency in the payment thereof.

“Leased Premises” means the Site subject to the provisions of the Lease Agreement, described in Exhibit A attached thereto and by reference incorporated therein.

“Miscellaneous Rent” means the amounts of additional rental which are payable by the City pursuant to the Lease Agreement.

“Permitted Encumbrances” means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid pursuant to the Lease Agreement; (b) the Lease Agreement, the Indenture and any other agreement or other document contemplated under the Lease Agreement to be recorded against the Leased Premises; (c) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; and (d) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist on record and which the City certifies in writing will not materially impair the use of the Leased Premises for their intended purposes.

“Site” means all of the land described in Exhibit A attached to the Lease Agreement and by reference incorporated therein.

“Term of the Lease Agreement” means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

“Trustee” means MUFG Union Bank, N.A. or any successor thereto acting as Trustee pursuant to the Indenture.

REPRESENTATIONS, COVENANTS AND WARRANTIES

Representations, Covenants and Warranties of the City

The City makes the following covenants, representations and warranties to the Authority as of the date of the execution and delivery of the Lease Agreement:

(a) Due Organization and Existence. The City is a municipal corporation duly organized and validly existing under the laws of the State, has full legal right, power and authority under the laws of the State to enter into the Lease Agreement and to carry out and consummate all transactions contemplated hereby and thereby, and by proper action the City has duly authorized the execution and delivery of the Lease Agreement.

(b) Due Execution. The representatives of the City executing the Lease Agreement have been fully authorized to execute the same pursuant to a resolution duly adopted by the City Council of the City.

(c) Valid, Binding and Enforceable Obligations. The Lease Agreement has been duly authorized, executed and delivered by the City and constitutes the legal, valid and binding agreement of the City enforceable against the City in accordance with the terms of the Indenture.

(d) No Conflicts. The execution and delivery of the Lease Agreement, the consummation of the transactions contemplated therein and the fulfillment of or compliance with the terms and conditions thereof, do not and will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed

of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement or the financial condition, assets, properties or operations of the City.

(e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Lease Agreement, or the consummation of any transaction contemplated therein, except as have been obtained or made and as are in full force and effect.

(f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the City after reasonable investigation, threatened against or affecting the City or the assets, properties or operations of the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease Agreement, or upon the financial condition, assets, properties or operations of the City, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement or the financial conditions, assets, properties or operations of the City.

(g) Essentiality. The Leased Premises constitutes property that is essential to carrying out the governmental functions of the City.

Representations, Covenants and Warranties of Authority

The Authority makes the following covenants, representations and warranties to the City as of the date of the execution and delivery of the Lease Agreement:

(a) Due Organization and Existence. The Authority is a joint powers authority duly organized and existing under and by virtue of the laws of the State; has power to enter into the Lease Agreement and the Indenture; is possessed of full power to own and hold, improve and equip real and personal property, and to lease and lease back the same; and has duly authorized the execution and delivery of each of the aforesaid agreements and such agreements constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance with their respective terms.

(b) Due Execution. The representatives of the Authority executing the Lease Agreement and the Indenture are fully authorized to execute the same pursuant to official action taken by the governing body of the Authority.

(c) Valid Binding and Enforceable Obligations. The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the Authority and constitute the legal, valid and binding agreements of the Authority, enforceable against the Authority in accordance their respective terms.

(d) No Conflicts. The execution and delivery of the Lease Agreement and the Indenture, the consummation of the transactions in the Lease Agreement and contemplated therein and the fulfillment of or compliance with the terms and conditions thereof, do not and will not conflict with or

constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the Authority is a party or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Authority, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement and the Indenture or the financial condition, assets, properties or operations of the Authority.

(e) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the Authority, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of the Lease Agreement or the Indenture, or the consummation of any transaction in the Lease Agreement or contemplated therein, except as have been obtained or made and as are in full force and effect.

(f) No Litigation. There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Authority after reasonable investigation, threatened against or affecting the Authority or the assets, properties or operations of the Authority which, if determined adversely to the Authority or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease Agreement or the Indenture, or upon the financial condition, assets, properties or operations of the Authority, and the Authority is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Lease Agreement or the Indenture or the financial conditions, assets, properties or operations of the Authority.

LEASE; TERM OF THE LEASE AGREEMENT; RENTAL PAYMENTS

Lease by Authority and Lease Back to City

(a) The Lease Agreement supersedes and amends the 2010 Lease in its entirety. In consideration of the payment of \$11,955,000 by the Authority less the Underwriters' Bond discount, plus original issue premium, and less the payment of Costs of Issuance, and in consideration of the execution of the Lease Agreement by the City, and other good and valuable consideration, the City hereby leases to the Authority, and the Authority hereby leases from the City, the Leased Premises for the Term of the Lease Agreement, plus one week following the end of the Term of the Lease Agreement.

(b) The Authority hereby leases the Leased Premises to the City, and the City hereby leases the Leased Premises from the Authority, upon the terms and conditions set forth in the Lease Agreement.

(c) The City hereby takes possession of the Leased Premises on the Closing Date.

Term of Lease Agreement

The Term of the Lease Agreement shall commence on March 2, 2017 and shall end on April 1, 2031, unless such term is extended as provided in the Lease Agreement or unless Lease Payments have been paid or prepaid in full or provision shall have been made for such payment pursuant to the Lease Agreement. If on April 1, 2031, the Indenture shall not be discharged by its terms or if the Lease Payments payable under the Lease Agreement shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended until the earlier of April 1, 2041, or the date the Indenture shall be discharged by its terms. If

prior to April 1, 2031, the Indenture shall be discharged by its terms and any amounts then owed to the Trustee have been paid in full, the Term of the Lease Agreement shall thereupon end.

Lease Payments; Security Deposit

(a) Obligation to Pay. In consideration of the lease and lease back by the Authority of the Leased Premises and in consideration of the issuance of the Bonds by the Authority for the purpose of acquiring the Site, and subject to the provisions of the Lease Agreement, the City agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of the Leased Premises during each Fiscal Year, the Lease Payments (denominated into components of principal and interest) for the Leased Premises in the respective amounts specified in Exhibit B to the Lease Agreement, to be due and payable each respective Lease Payment Date specified in Exhibit B thereto. Any amount held in the Bond Fund (but not including any amounts on deposit in the Reserve Account), the Interest Account, the Sinking Account or the Principal Account (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease Agreement) on any Lease Payment Date shall be credited towards the Lease Payment then due and payable. The Lease Payments coming due and payable in any Fiscal Year shall be for the use of the Leased Premises for such Fiscal Year. For purposes of making payments on the Bonds, the City shall deliver the Lease Payments to the Trustee no later than one Business Day prior to the Lease Payment Date.

(b) Effect of Prepayment. In the event that the City prepays all Lease Payments in full pursuant to the Lease Agreement, the City's obligations under the Lease Agreement shall thereupon cease and terminate, including but not limited to the City's obligation to pay Lease Payments under the Lease Agreement. In the event that the City prepays the Lease Payments in part but not in whole pursuant to the Lease Agreement the Authority shall provide, or cause to be provided, to the Trustee and the City a revised schedule of Lease Payments due after such partial prepayment, which revised schedule of Lease Payments shall be sufficient to provide for the scheduled payment of remaining principal of and interest on the Bonds, and which schedule shall represent an adjustment to the schedule of Lease Payments set forth in Exhibit B to the Lease Agreement after taking into account said partial prepayment.

(c) Rate on Overdue Payments. In the event the City should fail to make any of the payments required in the Lease Agreement, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate per annum equal to the average interest rate on the Bonds. Such interest, if received, shall be deposited in the Bond Fund.

(d) Fair Rental Value. The Lease Payments and Miscellaneous Rent coming due and payable under the Lease Agreement in each Fiscal Year shall constitute the total rental for the Leased Premises for each Fiscal Year and shall be paid by the City in each Fiscal Year for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Leased Premises during each Fiscal Year. The parties hereto have agreed and determined that the total amount of such Lease Payments and Miscellaneous Rent for the Leased Premises do not exceed the fair rental value of the Leased Premises. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Leased Premises and the benefits therefrom which will accrue to the City and the general public.

(e) Source of Payments; Budget and Appropriation. The Lease Payments shall be payable from any source of available funds of the City, subject to the provisions of the Lease Agreement. The City covenants to take such action as may be necessary to include all Lease Payments and Miscellaneous Rent due under the Lease Agreement in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and Miscellaneous Rent. The covenants on the part of the City contained in the Lease Agreement shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to

carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

The City and the Authority understand and intend that the obligation of the City to pay Lease Payments and other payments under the Lease Agreement constitutes a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, nor shall anything contained in the Lease Agreement constitute a pledge of the general tax revenues, funds or moneys of the City. Lease Payments due under the Lease Agreement shall be payable only from current funds which are budgeted and appropriated, or otherwise legally available, for the purpose of paying Lease Payments or other payments due under the Lease Agreement as consideration for use of the Leased Premises during the Fiscal Year for which such funds were budgeted and appropriated or otherwise made legally available for such purpose. The Lease Agreement shall not create an immediate indebtedness for any aggregate payments which may become due under the Lease Agreement. The City has not pledged the full faith and credit of the City, the State or any agency or department thereof to the payment of the Lease Payments or any other payments due under the Lease Agreement, the Bonds or the interest thereon.

(f) Assignment. The City understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees, to pay all of the Lease Payments to the Trustee at its Office.

(g) Security Deposit. Notwithstanding any other provision of the Lease Agreement, the City may on any date secure the payment of the Lease Payments in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts, is either (a) sufficient to pay such Lease Payments, including the principal and interest components thereof, in accordance with the related Lease Payment schedule set forth in Exhibit B to the Lease Agreement, or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under the Lease Agreement or on any optional prepayment date pursuant to the Lease Agreement, as the City shall instruct at the time of said deposit. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease Agreement. In connection with the making of any such security deposit, the Authority shall take, and shall cause the Trustee to take, any actions necessary to remove the appropriate portions of the Leased Premises from the lien of the Lease Agreement.

(h) Delinquent Lease Payments. Any delinquent Lease Payment shall be made to the Trustee for application as set forth in the Indenture.

Optional Prepayment

The City shall have the option to prepay the principal components of the Lease Payments in whole, or in part in any integral multiple of \$5,000, on any date on or after April 1, 2027, by paying a prepayment price equal to the aggregate principal components of the Lease Payments to be prepaid, together with a prepayment premium equal to the premium (if any) required to be paid on the corresponding redemption of the Bonds pursuant to the Indenture and together with accrued interest to the prepayment date. Such prepayment price (except the interest portion thereof, which shall be deposited into the Interest Account) shall be deposited by the Trustee in the Redemption Fund to be applied to the redemption of Bonds pursuant to the Indenture. The Authority shall give the Trustee written notice of the City's intention to exercise its option not less than sixty (60) days in advance of the date of exercise or such shorter period acceptable to the Trustee. Notwithstanding any such prepayment, as long as any Bonds remain Outstanding or any Miscellaneous Rent payments remain unpaid, the City shall not be relieved of its obligations under the Lease Agreement as to such Bonds or such Miscellaneous Rent.

Quiet Enjoyment

During the Term of the Lease Agreement, the Authority shall provide the City with quiet use and enjoyment of the Leased Premises, and the City shall, during such Term, peaceably and quietly have and hold and enjoy the Leased Premises without suit, trouble or hindrance from the Authority, except as expressly set forth in the Lease Agreement. The Authority will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority shall have the right to inspect the Leased Premises as provided in the Lease Agreement.

Title

During the Term of the Lease Agreement, the Authority shall hold a leasehold in the Leased Premises, and in any and all additions which comprise fixtures, repairs, replacements or modifications to the Leased Premises, except for those fixtures, repairs, replacements or modifications which are added to the Leased Premises by the City at its own expense and which may be removed without damaging the Leased Premises and except for any items added to the Leased Premises by the City pursuant to the Lease Agreement. All right, title and interest of the Authority in and to the Leased Premises shall be transferred to and vested in the City if (a) the City pays all of the Lease Payments and Miscellaneous Rent during the Term of the Lease Agreement as the same become due and payable, or if the City posts a security deposit for payment of the Lease Payments or prepays the Lease Payments pursuant to the Lease Agreement if the City has paid in full all of the Miscellaneous Rent coming due and payable as of the date of such prepayment; and provided in any event that no Event of Default shall have occurred and be continuing. The Authority agrees to take any and all steps and execute and record any and all documents reasonably required by the City to consummate any such transfer of title.

Miscellaneous Rent

In addition to the Lease Payments, the City shall pay when due the following items of Miscellaneous Rent:

- (a) All fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Leased Premises as and when the same become due and payable;
- (b) All compensation and indemnification to the Trustee pursuant to the Indenture for all services rendered under the Indenture and for all reasonable expenses, charges, costs, liabilities, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture;
- (c) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease Agreement or the Indenture; and
- (d) The reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease Agreement or the Indenture, or in connection with the issuance of the Bonds, including but not limited to amounts payable pursuant to the Lease Agreement, and including but not limited to any and all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the Lease Agreement, the Bonds, the Indenture or any of the other documents contemplated hereby or thereby, or otherwise incurred in connection with the administration of the Lease Agreement.

Substitution or Release of Leased Premises

The City shall have, and is hereby granted, the option at any time and from time to time during the Term of the Lease Agreement, to substitute other land, facilities or improvements (the "Substitute Leased Premises") for the Leased Premises or any portion thereof (the "Former Leased Premises") or to release a portion of the Leased Premises (the "Released Premises") from the lien of the Lease Agreement, provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such substitution or release:

(a) The City shall provide written notification of such substitution or release to the Trustee and Rating Agencies, which notice shall contain the certification that all conditions set forth in the Lease Agreement are met with respect to such substitution or release;

(b) The City shall take all actions and shall execute all documents required to subject the Substitute Leased Premises to the terms and provisions of the Lease Agreement, including the filing with the Authority and the Trustee of an amended Exhibit A which adds thereto a description of the Substitute Leased Premises and deletes therefrom the description of the Former Leased Premises or the Released Premises, as applicable;

(c) (i) In the case of a substitution, the City shall determine and certify to the Authority and the Trustee that the fair rental value of the Substitute Leased Premises is at least equal to the remaining Lease Payments after such substitution and that the Substitute Leased Premises is essential to the governmental functions of the City;

(ii) In the case of a release, the City shall determine and certify to the Authority and the Trustee that the fair rental value of the remaining Leased Premises after removal of the Released Premises is at least equal to the then remaining Lease Payments;

(d) In the case of a substitution, the City shall certify in writing to the Authority and the Trustee that the Substitute Leased Premises serve the public purposes of the City and constitute property which the City is permitted to lease under the laws of the State;

(e) In the case of a substitution, the City shall certify in writing to the Authority and the Trustee that the estimated useful life of the Substitute Leased Premises at least extends to the date on which the final Lease Payment becomes due and payable under the Lease Agreement;

(f) In the case of a substitution, the City shall obtain a CLTA policy of title insurance meeting the requirements of the Lease Agreement with respect to any real property portion of the Substitute Leased Premises;

(g) In the case of a substitution, the substitution of the Substitute Leased Premises shall not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement; and

(h) The City shall obtain and cause to be filed with the Trustee and the Authority an opinion of Bond Counsel stating that such substitution or release is permitted under the Lease Agreement and does not cause interest on the Bonds to become includable in the gross income of the Bond Owners for federal income tax purposes.

From and after the date on which all of the foregoing conditions precedent to such substitution or release are satisfied, the Term of the Lease Agreement shall cease with respect to the Former Leased Premises or Released Premises, as applicable, and shall be continued with respect to the Substitute Leased Premises and the remaining Leased Premises and all references in the Lease Agreement to the Former Leased Premises shall apply with full force and effect to the Substitute Leased Premises. The City shall not be entitled to any

reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution or release.

MAINTENANCE; TAXES; INSURANCE; USE LIMITATIONS; AND OTHER MATTERS

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Leased Premises, all improvement, repair and maintenance of the Leased Premises shall be the responsibility of the City and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Premises which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Premises resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Lease Payments provided in the Lease Agreement, the Authority agrees to provide only the Leased Premises, as more specifically set forth in the Lease Agreement. The City waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the City under the terms of the Lease Agreement.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Premises or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Leased Premises will be materially endangered or the Leased Premises or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Modification of Leased Premises

The City shall, at its own expense, have the right to make additions, modifications and improvements to the Leased Premises. All additions, modifications and improvements to the Leased Premises shall thereafter comprise part of the Leased Premises and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Premises or cause the Leased Premises to be used for purposes other than those authorized under the provisions of State and federal law; and the City shall file with the Trustee and the Leased Premises, upon completion of any additions, modifications and improvements made thereto pursuant to the Lease Agreement, which shall be of a value that is not substantially less than the value of the Leased Premises immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Premises for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to the Lease Agreement; provided that if any such lien is established and the City shall first notify or cause to be notified the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Premises, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such

item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Public Liability and Property Damage Insurance

The City shall maintain or cause to be maintained throughout the Term of the Lease Agreement, but only if and to the extent available from reputable insurers at reasonable cost in the reasonable opinion of the City, a standard comprehensive general insurance policy or policies in protection of the Authority, City, and their respective members, officers, agents, employees and assigns. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 of damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy or policies in the amount of \$3,000,000 (subject to a deductible clause of not to exceed \$150,000) covering all such risks. Such policy or policies shall provide coverage in such liability limits and be subject to such deductibles as the City shall deem adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Lease Agreement, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. In the case of the City's self-insurance of public liability and workers' compensation, the City may maintain a self-insured retention, and pay up to \$500,000 of each liability claim and up to \$350,000 of each worker's compensation claim, so long as the provisions of the Lease Agreement. The proceeds of such liability insurance shall be applied by the City toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Casualty Insurance

The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any Facilities by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance, if required, shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and shall include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the judgment of the City's risk manager. Such insurance shall be in an amount at least equal to the lesser of (a) one hundred percent (100%) of the replacement cost of the Facilities, or (b) the aggregate unpaid principal components of the Lease Payments allocable to the Facilities. Such insurance may be subject to such deductibles as the City shall deem prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement.

Each policy of insurance to be maintained by the City pursuant to the Lease Agreement shall (a) provide for the full payment of insurance proceeds up to the applicable dollar limit in connection with damage to the Leased Premises and shall, under no circumstances, be contingent upon the degree of damage sustained at other facilities owned or leased by the City; and (b) explicitly waive any co-insurance penalty.

Rental Interruption Insurance

The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any Facilities to be constructed on the Leased Premises, as a result of any of the hazards covered by the insurance required by the Lease Agreement, in an amount at least equal to the maximum Lease Payments allocable to the Facilities coming due and payable during any future twenty-four (24) month period. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City,

and may be maintained in whole or in part in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Bond Fund, and shall be applied for the uses and purposes set forth in the Indenture.

Recordation of the Lease Agreement; Title Insurance

On or before the Closing Date the City shall, at its expense, (a) cause the Lease Agreement, or a memorandum thereof in form and substance approved by Bond Counsel, to be recorded in the office of the San Diego County Recorder and (b) obtain a CLTA policy of title insurance insuring the City's leasehold estate under the Lease Agreement, subject only to Permitted Encumbrances, in an amount at least equal to the aggregate principal amount of the Bonds. All Net Proceeds received under said policy shall be deposited with the Trustee in the Redemption Fund and shall be applied to the redemption of the Bonds pursuant to the Indenture.

Net Proceeds of Insurance; Form of Policies

(a) Each policy of insurance maintained pursuant to the Lease Agreement shall name the Trustee as loss payee so as to provide that all proceeds thereunder shall be payable to the Trustee and shall name the Authority, the City and the Trustee as insureds. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. All such policies shall provide that the Trustee shall be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee shall not be responsible for the sufficiency or amount of any insurance or self-insurance required in the Lease Agreement and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The City shall cause to be delivered to the Trustee annually, no later than May 1 in each year, beginning on May 1, 2017, a certificate stating that all of the insurance policies required by the Lease Agreement are in full force and effect and identifying whether any such insurance is then maintained in the form of self-insurance.

(b) In the event that any insurance maintained pursuant to the Lease Agreement shall be provided in the form of self-insurance, the City shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of the risk manager of the City or an independent insurance adviser engaged by the City identifying the extent of such self-insurance and stating the determination that the City maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the City, the City shall not be obligated to make any payment with respect to any insured event except from such reserves. The Trustee shall not be responsible for the sufficiency or adequacy of any insurance required in the Lease Agreement and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

(c) If the City shall fail to perform any of its obligations under the Lease Agreement, the Authority or the Trustee may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the City shall be obligated to repay all such advances as soon as possible, with interest at the rate payable by the Authority on the Bonds from the date of the advance to the date of repayment.

Installation of Personal Property

The City may, at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon any portion of the Leased Premises. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by the City at any time provided that the City shall repair and restore any and all damage to the Leased Premises resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the City from purchasing or leasing

items to be installed pursuant to the Lease Agreement under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Premises.

Liens

Neither the City nor the Authority shall, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to any portion of the Leased Premises, other than the respective rights of the Authority and the City as provided in the Lease Agreement and other than Permitted Encumbrances. Except as expressly provided in the Lease Agreement, the City and the Authority shall promptly, at their own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The City shall reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Tax Covenants

(a) Private Activity Bond Limitation. The City shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of Section 141(b) of the Tax Code or the private loan financing test of Section 141(c) of the Tax Code.

(b) Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(c) No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

(d) Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the Closing Date.

Payment of Rebatable Amounts

The City agrees to furnish all information to, and cooperate fully with, the Authority and their respective officers, employees, agents and attorneys, in order to assure compliance with the provisions of the Indenture. In the event that the Authority shall determine, pursuant to the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay the amounts determined by the Authority to be due and payable to the United States of America under the Indenture, such payments to be made in accordance with the applicable provisions of the Tax Code.

Continuing Disclosure

The City hereby covenants and agrees that it will comply with and carry out all of the provisions of its Undertaking to Provide Continuing Disclosure with respect to the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Notwithstanding any other provision of the Lease Agreement, failure of the City to comply with such Undertaking to Provide Continuing Disclosure shall not be considered an Event of Default; however, any Owner may take such actions, as provided in such

Undertaking to Provide Continuing Disclosure, as may be necessary and appropriate to cause the City to comply with its obligations under such Undertaking to Provide Continuing Disclosure.

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Eminent Domain

If all of the Leased Premises shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Premises shall be taken permanently, or if all of the Leased Premises or any part thereof shall be taken temporarily under the power of eminent domain, (a) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there shall be a partial abatement of Lease Payments in an amount to be agreed upon by the City and the Authority such that the resulting Lease Payments for the Leased Premises, represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Premises.

Application of Net Proceeds

(a) From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Premises by fire or other casualty shall be deposited in its Insurance and Condemnation Fund or the Redemption Fund, as applicable, by the Trustee and applied in accordance with the Indenture.

(b) From Eminent Domain Award. The Net Proceeds of any eminent domain award resulting from any event described in the Lease Agreement shall be deposited in the Insurance and Condemnation Fund or the Redemption Fund, as applicable, by the Trustee and applied in accordance with the Indenture.

Abatement of Lease Payments in the Event of Damage or Destruction

The Lease Payments allocable to the Leased Premises shall be abated during any period in which by reason of damage or destruction (other than by eminent domain which is provided for in the Lease Agreement) there is substantial interference with the use and occupancy by the City of the Leased Premises or any portion thereof. The amounts of the Lease Payments under such circumstances may not be less than the amounts of the unpaid Lease Payments, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Leased Premises not damaged or destroyed, based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there may be no abatement of Lease Payments to the extent that (a) the proceeds of rental interruption insurance, are available to pay Lease Payments, or (b) amounts in the Bond Fund are available to pay Debt Service payable from Lease Payments which would otherwise be abated.

DISCLAIMER OF WARRANTIES; ACCESS

Disclaimer of Warranties

Neither the Authority nor the Trustee makes any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the Leased Premises, or any other representation or warranty with respect to the

Leased Premises. In no event shall the Authority, the Trustee, and their respective assigns be liable for incidental, indirect, special or consequential damages in connection with or arising out of the Lease Agreement or the Indenture for the existence, furnishing, functioning or the City's use of the Leased Premises.

Rights of Access

The City agrees that the Authority and any Authorized Representative of the Authority, and the Authority's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Leased Premises. The City further agrees that the Authority, any Authorized Representative of the Authority, and the Authority's successors or assigns shall have such rights of access to the Leased Premises as may be reasonably necessary to cause the proper maintenance of the Leased Premises in the event of failure by the City to perform its obligations under the Lease Agreement.

Release and Indemnification Covenants

The City shall and hereby agrees to indemnify and save the Authority, the Trustee, and their respective officers, agents, successors and assigns, harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Premises by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under the Lease Agreement, (c) any act or negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Premises, (d) the use, presence, storage, disposal of any Hazardous Substances, Substance on or about the Leased Premises, or (e) any act or negligence of any sublessee of the City with respect to the Leased Premises. No indemnification is made under the Lease Agreement or elsewhere in the Lease Agreement for willful misconduct, negligence under the Lease Agreement by the Authority or the Trustee or any of their respective officers, agents, employees, successors or assigns.

ASSIGNMENT, SUBLEASING AND AMENDMENT

Assignment by the Authority

The Authority's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Lease Agreement, have been pledged and assigned to the Trustee for the benefit of the Owners of the Bonds pursuant to the Indenture, to which pledge and assignment the City hereby consents. The assignment of the Lease Agreement to the Trustee is solely in its capacity as Trustee under the Indenture and the duties, powers and liabilities of the Trustee in acting under the Lease Agreement shall be subject to the provisions of the Indenture, including, without limitation, the provisions of the Indenture.

Assignment and Subleasing by the City

The Lease Agreement may not be assigned by the City. The City may sublease the Leased Premises or any portion thereof, but only with the written consent of the Authority and subject to all of the following conditions:

- (a) The Lease Agreement and the obligation of the City to make Lease Payments under the Lease Agreement shall remain obligations of the City;
- (b) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease;
- (c) No such sublease by the City shall cause the Leased Premises to be used for a purpose other than as may be authorized under the provisions of the laws of the State; and

(d) The City shall furnish the Authority and the Trustee with a written opinion of Bond Counsel, stating that such sublease is permitted by the Lease Agreement and the Indenture, and will not cause the interest on the Bonds to become included in gross income for federal income tax purposes.

Amendment of the Lease Agreement

The Authority and the City may at any time amend or modify any of the provisions of the Lease Agreement, but only (a) with the prior written consent of a majority in aggregate principal amount of the Outstanding Bonds, or (b) without the consent of any of the Bond Owners, but only if such amendment or modification is for any one or more of the following purposes:

(a) to add to the covenants and agreements of the City contained in the Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power reserved to or conferred upon the City in the Lease Agreement;

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Lease Agreement, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments will not materially adversely affect the interests of the Owners of the Bonds;

(c) to amend any provision thereof relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds under the Tax Code, in the opinion of Bond Counsel;

(d) to amend the description of the Leased Premises set forth in Exhibit A to the Lease Agreement to add property acquired by the City and the Authority from proceeds on deposit in the Project Fund or to reflect accurately the property originally intended to be included therein, or in connection with any substitution or release pursuant to the Lease Agreement; or

(e) to obligate the City to pay additional amounts of rental under the Lease Agreement for the use and occupancy of the Leased Premises, provided that (A) no Event of Default has occurred and is continuing under the Lease Agreement, (B) such additional amounts of rental do not cause the total rental payments made by the City under the Lease Agreement to exceed the fair rental value of the Leased Premises, as set forth in a certificate of a City Representative filed with the Trustee and the Authority, (C) the City shall have obtained and filed with the Trustee and the Authority a Written Certificate of an Authorized Representative of the City showing that the fair rental value of the Leased Premises is not less than the sum of the aggregate unpaid principal components of the Lease Payments and the aggregate principal components of such additional amounts of rental, (D) such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which shall be applied to finance the construction or acquisition of land, facilities or other improvements which are authorized pursuant to the laws of the State, and (E) such additional rental is not at variable rates.

EVENTS OF DEFAULT; REMEDIES

Events of Default Defined

The following shall be “Events of Default” under the Lease Agreement:

(a) Failure by the City to pay any Lease Payment required to be paid under the Lease Agreement at the time specified therein.

(b) Failure by the City to make any Miscellaneous Rent payment required under the Lease Agreement and the continuation of such failure for a period of thirty (30) days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, or the Trustee; provided, however, that if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure shall not constitute an Event of Default if the City shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith shall cure such failure in a reasonable period of time.

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of applicable federal bankruptcy law, or under any similar acts which may hereafter be enacted.

Remedies on Default

Whenever any Event of Default referred to in the Lease Agreement shall have happened and be continuing, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything to the contrary in the Lease Agreement or in the Indenture, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or to terminate the Lease Agreement or to cause the leasehold interest of the Authority or the subleasehold interest of the City in the Site to be sold, assigned or otherwise alienated. Each and every covenant of the Lease Agreement to be kept and performed by the City is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights of entry and re-entry upon the Leased Premises. In the event of such default and notwithstanding any re-entry by the Authority, the City shall, as expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement, and in any event such rent and damages shall be payable to the Authority at the time and in the manner as therein provided, to wit:

(a) The City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Premises, or, in the event the Authority is unable to relet the Leased Premises, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided in the Lease Agreement for the payment of Lease Payments under the Lease Agreement, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Premises or the exercise of any other remedy by the Authority.

(b) The City hereby irrevocably appoints the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Premises in the event of default by the City in the performance of any covenants contained in the Lease Agreement to be performed by the City and to remove all personal property whatsoever situated upon the Leased Premises to place such property in storage or other suitable place in the County of San Diego, for the account of and at the expense of the City, and the City hereby exempts and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Premises

and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement.

(c) The City hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Leased Premises as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Leased Premises and all claims for damages to or loss of any property belonging to the City that may be in or upon the Leased Premises.

(d) The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease the Leased Premises in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such releasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise.

(e) The City further waives the right to any rental obtained by the Authority in excess of the Lease Payments and hereby conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Leased Premises.

No Remedy Exclusive

No remedy conferred upon or reserved to the Authority in the Lease Agreement is intended to be exclusive and every such remedy shall be cumulative and shall, except as therein expressly provided to the contrary, be in addition to every other remedy given under the Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in the Lease Agreement it shall not be necessary to give any notice, other than such notice as may be required in the Lease Agreement or by law.

Agreement to Pay Attorneys' Fees and Expenses

In the event either party to the Lease Agreement should default under any of the provisions thereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party contained in the Lease Agreement, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred by the nondefaulting party.

No Additional Waiver Implied by One Waiver

In the event any agreement contained in the Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Lease Agreement.

Trustee and Bondholder to Exercise Rights

Such rights and remedies as are given to the Authority under the Lease Agreement have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

MISCELLANEOUS

Binding Effect

The Lease Agreement shall inure to the benefit of and shall be binding upon the Authority and the City and their respective successors and assigns.

Severability

In the event any provision of the Lease Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision thereof.

Net-net-net Lease

The Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the City hereby agrees that the Lease Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

Further Assurances and Corrective Instruments

The Authority and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Premises hereby leased or intended so to be or for carrying out the expressed intention of the Lease Agreement.

Execution in Counterparts

The Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Applicable Law

The Lease Agreement shall be governed by and constructed in accordance with the laws of the State.

Authorized Representatives

Whenever under the provisions of the Lease Agreement the approval of the Authority or the City is required, or the Authority or the City is required to take some action at the request of the other, such approval or such request shall be given for the Authority by an Authorized Representative of the Authority and for the City by an Authorized Representative of the City, and any party hereto shall be authorized to rely upon any such approval or request.

Captions

The captions or headings in the Lease Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of the Lease Agreement.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

March 2, 2017

Encinitas Public Financing Authority
505 South Vulcan Avenue
Encinitas, CA 92024

Re: \$11,955,000 Encinitas Public Financing Authority 2017 Lease Revenue Refunding Bonds Series, A (Park Project)

Ladies and Gentlemen:

We have reviewed the Constitution and laws of the State of California and certain proceedings taken by the Encinitas Public Financing Authority (the "Authority") in connection with the issuance by the Authority of the Encinitas Public Financing Authority 2017 Lease Revenue Refunding Bonds, Series A (Park Project) (the "Bonds"), pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law") and pursuant to an Indenture of Trust, dated as of March 1, 2017 (the "Indenture of Trust"), by and between MUFG Union Bank, N.A., as trustee (the "Trustee"), and the Authority. The proceeds of the Bonds will be applied by the Authority to refinance improvements to the City's public library (the "City"). The Authority and the City have entered into a Second Amended and Restated Lease Agreement, dated as of March 1, 2017 (the "Lease Agreement"), whereby the City has leased from the Authority certain City facilities and property (the "Leased Premises") and the City will make Lease Payments for the Leased Premises to the Authority. Pursuant to the Indenture of Trust, the Lease Payments have been assigned by the Authority to the Trustee and will be used by the Trustee to pay the principal of and interest on the Bonds. We have examined the Indenture of Trust, the Lease Agreement and such certified proceedings and other documents and materials as we deem necessary to render this opinion.

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 investigation.

Based upon the foregoing, we are of the opinion, under existing law, that:

The Authority is a joint powers authority duly organized and validly existing under the laws of the State of California, with power to enter into the Indenture of Trust and the Lease Agreement, to perform the agreements on its part contained therein and to issue the Bonds;

The Bonds constitute the valid and legally binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture of Trust;

The Indenture of Trust and the Lease Agreement have been duly approved by the Authority and constitute the valid and legally binding obligations of the Authority enforceable against the Authority in accordance with their respective terms;

The Indenture of Trust establishes a lien on and pledge of the Revenues (as such term is defined in the Indenture of Trust) which consist of Lease Payments and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture of Trust;

Interest on the Bonds is exempt from California personal income taxation.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain investment, rebate and related requirements which must be met subsequent to the delivery of the Bonds for the interest received by the owners of the Bonds to be and remain excluded from gross income for purposes of federal income taxation. Noncompliance with such requirements could cause the interest on the Bonds to be subject to federal income taxation retroactive to the date of delivery of the Bonds. Pursuant to the Indenture of Trust the Authority has covenanted to comply with the requirements of the Code. Assuming compliance with the aforementioned covenant, we are of the opinion that, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions of the Code. We are further of the opinion that interest on the Bonds received by corporations will be included in corporate adjusted current earnings, a portion of which may increase the alternative minimum taxable income of such corporations. Although the interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds, or any portion thereof, may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

Our opinions, expressed herein, may be affected by action taken (or not taken) on 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 occur.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture of Trust may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the City of Encinitas (the “City”) and the Encinitas Public Financing Authority (the “Authority”) in connection with the issuance of the Authority’s \$11,955,000 aggregate principal amount 2017 Lease Revenue Refunding Bonds, Series A (Park Project) (the “Bonds”). The Bonds have been issued pursuant to an Indenture of Trust dated as of March 1, 2017, between the Authority and MUFG Union Bank, N.A., as trustee (the “Trustee”) (the “Indenture”). The City and the Authority covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Authority for the benefit of the holders and beneficial owners of the Bonds.

Section 2. Definitions.

(a) “Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

(b) “Dissemination Agent” means, initially, Applied Best Practices, LLC, as Dissemination Agent, or any successor Dissemination Agent designated in writing by the City which has filed with the City a written acceptance of such designation.

(c) “Participating Underwriter” means Fidelity Capital Markets, or any other financial institution required to comply with the Rule in connection with the reoffering of the Bonds.

(d) “Official Statement” means the Official Statement dated February 7, 2017, prepared in connection with the issuance of the Bonds.

(e) “Repository” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system, and any other Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

(f) “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.

(g) “Significant Events” shall mean any of the events listed in Section 5 of this Disclosure Agreement.

(h) “MSRB” means the Municipal Securities Rulemaking Board.

(i) “SEC” means the Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than March 1 in each year while the Bonds are outstanding commencing on March 1, 2018, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) business days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report.

(b) If the City is unable to provide to the Repository an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB in substantially the form attached as Exhibit A hereto.

(c) The Dissemination Agent shall:

(i) Determine each year prior to the date for providing the Annual Report the name and address of the Repository; and (if the Dissemination Agent is other than the City).

(ii) File a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all Repositories to which it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) A copy of its annual financial statements prepared in accordance with generally accepted accounting principles, audited by a firm of certified public accountants. 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 Annual Report and audited financial statements will be provided when and if available. In such an event, the Disclosure Agreement shall contain a statement as to the estimated date on which the City's audited financial statements are expected to be available.

(b) The following information, to the extent not included in the audited financial statements of the City, shall include the following:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the City for the most recently completed Fiscal Year, including information showing revenue collections by source (Table A-9);

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the City which are payable out of the General Fund of the City, as of the close of the most recently completed Fiscal Year (Table A-7);

(iii) information concerning the assessed valuation of properties within the City for the most recently completed Fiscal Year, showing the valuation for secured, public utility and unsecured property (Table A-11);

(iv) information showing the total secured property tax levy and actual amounts collected for the most recently completed Fiscal Year (Table A-12); and

(v) information showing the balance sheet of the General Fund of the City as of the close of the most recently completed Fiscal Year, including categorized assets, liabilities and reserved and unreserved fund balances (Table A-8).

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such document incorporated by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City and the Authority 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 in excess of 10 business days after the occurrence of the event:

1. principal and interest payment delinquencies.
2. tender offers.
3. defeasances.
4. rating changes.
5. adverse tax opinions, or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB).
6. unscheduled draws on the debt service reserves reflecting financial difficulties.
7. unscheduled draws on credit enhancement reflecting financial difficulties.
8. substitution of the credit or liquidity providers or their failure to perform.
9. bankruptcy, insolvency, receivership or similar event of the City or Authority. For the purposes of the event identified in this Section 5(a)(9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City or Authority 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 City or Authority, 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 City or Authority.

(b) Pursuant to the provisions of this Section 5, the City and Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. non-payment related defaults.
2. modifications to rights of bondholders.
3. optional, contingent or unscheduled note calls.
4. unless described under Section 5(a)(5) above, material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
5. release, substitution or sale of property securing repayment of the Bonds.
6. the consummation of a merger, consolidation, or acquisition involving the City or Authority or the sale of all or substantially all of the assets of the City or Authority, 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 paying agent with respect to the Bonds or the change of name of such a trustee or paying agent.

(c) Whenever the City or Authority obtains knowledge of the occurrence of a Listed Event under Section 5(b) hereof, the City or Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City or Authority determines that knowledge of the occurrence of a Listed Event under Section 5(c) hereof would be material under applicable federal securities laws, the City or Authority shall (i) file a notice of such occurrence with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the Repository in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the City's or Authority's determination of materiality pursuant to Section 5(c).

Section 6. Termination of Reporting Obligation. The City's and the Authority's obligations under this Disclosure Agreement shall be in effect from and after the execution and delivery of the Bonds and shall extend to the earlier of (i) the date all principal and interest on the Bonds shall have been deemed paid pursuant to the terms of the Indenture; (ii) the date that the City and the Authority shall no longer constitute an "obligated person" within the meaning of the Rule.

Section 7. Enforcement. The obligations of the City and the Authority hereunder shall be for the benefit of the Participating Underwriter and the Owners of the Bonds, including Beneficial Owners of the Bonds. Unless otherwise required by law, no owners of the Bonds shall be entitled to damages for the City's or the Authority's non-compliance with its undertakings set forth in this Disclosure Agreement; however, the Participating Underwriter, and Owners of the Bonds, including Beneficial Owners of the Bonds, may enforce specific performance of such undertakings by any judicial proceeding available. Breach of the undertakings of the City and the Authority hereunder shall not constitute an event of default under the Indenture and none of the rights and remedies provided by the Indenture with respect to an event of default, shall be available to the Participating Underwriter, Owners of the Bonds, including Beneficial Owners.

Section 8. Dissemination Agent; Duties. The City or the Authority may, from time to time, appoint or engage a Dissemination Agent to assist the City in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The obligations of the City under this Disclosure Agreement shall survive resignation or removal of the Dissemination Agent.

The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed by the Authority all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to it hereunder or shall be deemed to be acting in any fiduciary capacity for the Authority, the owners of the Bonds or any other party. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any document or any further act.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Authority may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if (i) such amendment or waiver does not, in and of itself, cause the

undertakings herein to violate the Rule, but taking into account any subsequent change in or official interpretation of the Rule and the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds. The City shall provide notice of any such amendment or waiver to each Repository.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment related to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5 and (ii) the Annual Report for the year in which the change is made should represent a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Default. In the event of a failure of the City or the Authority to comply with any provision of this Disclosure Agreement, the Trustee at the written direction of the Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, or any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement, but only to the extent funds have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorney. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement shall be an action to compel performance.

Section 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City or the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of an event other than a Significant Event, in addition to that which is required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of the occurrence of an event other than a Significant Event in addition to what is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Authority, the Trustee, the Dissemination Agent, the Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

DATE: March 2, 2017

CITY OF ENCINITAS

By: _____
Authorized Signature

**ENCINITAS PUBLIC FINANCING
AUTHORITY**

By: _____
Authorized Signature

ACCEPTED BY:

**APPLIED BEST PRACTICES, LLC as
Dissemination Agent**

By: _____
Authorized Signature

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Encinitas Public Financing Authority

(the "Issuer")

Issue: 2017 Lease Revenue Refunding Bonds, Series A (Park Project)

Date of Delivery: March 2, 2017

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-referenced Bonds as required by resolution of the governing board of the Issuer and by the Continuing Disclosure Agreement executed on March 2, 2017 by the Issuer and the City of Encinitas. The Issuer anticipates that the Annual Report will be filed on or before _____.

Dated: _____

ENCINITAS PUBLIC FINANCING AUTHORITY

By: _____
Authorized Signature

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APPENDIX F

BOOK-ENTRY PROVISIONS

The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority and the Underwriter believe to be reliable, but neither the Authority or the Underwriter take any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive bonds representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the

actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT

AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

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