

CITY COUNCIL

For City Clerk's Use:

☐ **APPROVED** ☐ **DENIED**

Reso No. _____ File No. _____

Ord No. _____

Agenda Item No.: 15

Date: February 13, 2013

TO: Honorable Mayor and Members of the City Council

FROM: Gilbert Rojas, Director of Finance

SUBJECT: 2013 Refunding of 2001 Lease Revenue Bonds (Reidy Creek Project)-Financing Plan and Legal Documents

RECOMMENDATION:

It is requested that the City Council and the Escondido Joint Powers Financing Authority take the following actions:

- a) Adopt City and Escondido Joint Powers Financing Authority Resolutions No. 2013-28 and EJPFA 2013-01 to approve the issuance and sale of Lease Revenue Refunding Bonds, Series 2013A ("2013 Bonds"), in the principal amount not to exceed \$5.5 million to refinance 2001 Lease Revenue Bonds ("2001 Bonds") which financed construction improvements at Reidy Creek Golf Course and related storm drain and flood control improvements.
- b) Authorize the Mayor/Chairperson, City Manager/Executive Director, City Clerk/Secretary, Finance Director/Treasurer and other officers of the City and Financing Authority to sign any and all refinancing documents.
- c) Authorize the Finance Department to make the necessary revenue and expenditure budget adjustments to the General Fund, Golf Course Fund and Debt Service Fund for all transactions associated with the issuance of the 2001 Bonds.

FISCAL ANALYSIS:

The issuance by the Authority of the 2013 Bonds will achieve a complete refinancing of the 2001 Bonds. The 2013 Bonds will be secured by lease payments payable by the City pursuant to the Lease Agreement on a basis substantially similar to the security for the 2001 Bonds. The 2013 Bonds will be issued in an amount not to exceed \$5,500,000 million, including funding a reserve fund if necessary, and all cost of issuance. Staff does not propose to extend the overall maturity of the 2001 Bonds.

Over the past few months, staff has been tracking current market comparisons on all the 2001 Bonds in an effort to lower our annual costs by means of a debt refinancing transaction.

The industry standard when doing a refinancing is to attain a three percent, or higher, savings on a present value basis, including all costs of issuance.

Under current market conditions, staff estimates present value savings from the refinancing of 11.08%, although actual savings will be determined at the time of the sale.

To carry out the refinancing, the City has retained the firms of Stifel, Nicolaus & Company, dba Stone & Youngberg, a Division of Stifel Nicolaus, as Underwriter; and Stradling Yocca Carlson & Rauth, as Bond and Disclosure Counsel.

BACKGROUND:

Currently the municipal bond market provides the City with a favorable environment in which to refinance the Financing Authority's 2001 Lease Revenue Bonds (Reidy Creek) through the issuance and sale of 2013 Bonds in an amount not to exceed \$5.5 million and a maturity no later than September 1, 2030 (the date that the 2001 Bonds mature). The 2001 bonds are currently outstanding in the principal amount of \$5.205 million and the entire principal amount may be refinanced at this time without penalty.

The following documents are to be approved:

Ground Lease. Under the Ground Lease, the City will lease Reidy Creek Golf Course to the Authority in consideration for the Authority's assistance in the refinancing. The Ground Lease will be recorded with the County Recorder.

Lease Agreement. Under the Lease Agreement, the Authority will sublease Reidy Creek Golf Course back to the City in exchange for Rental Payments in an amount sufficient to pay the principal of and interest on the 2013 Bonds. The City covenants to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. A memorandum of the Lease Agreement will be recorded with the County Recorder.

Assignment Agreement. Under the Assignment Agreement, the Authority will assign its rights under the Lease Agreement, including its right to receive Rental Payments, to The Bank of New York Mellon Trust Company, N.A., as trustee on behalf of the 2013 Bond owners. The City is not a party to the Assignment Agreement. The Assignment Agreement will be recorded with the County Recorder.

Indenture. The indenture is the primary document by which the 2013 Bonds are issued. The Indenture establishes conditions for issuing additional debt payable from the Rental Payments and includes instructions to the Trustee to apply the proceeds of the 2013 Bonds. The Indenture also describes when and how principal of and interest on 2013 Bonds are paid and the conditions under which the 2013 Bonds may be redeemed prior to maturity.

2013 Refunding of 2001 Lease Revenue Bonds (Reidy Creek Project)

February 13, 2013

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Escrow Agreement. The Escrow Agreement establishes an escrow fund into which moneys sufficient to redeem the 2001 Bonds (consisting of moneys currently deposited in funds and accounts for the 2001 Bonds and proceeds of the 2013 Bonds) will be deposited. The Escrow Agreement instructs the escrow agent to redeem the 2001 Bonds on or about April 1, 2013.

Bond Purchase Agreement. Pursuant to the Bond Purchase Agreement, the Authority and the City agree to sell the 2013 Bonds to Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter") and the Underwriter agrees to purchase the 2013 Bonds, subject to usual closing conditions.

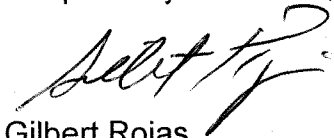
Official Statement. The Official Statement is the disclosure document sent to potential investors. The Official Statement describes the City, City finances, the 2013 Bonds, the Indenture, the Lease Agreement and other information related to purchasing the 2013 Bonds. The Underwriter uses the Official Statement as a marketing document. As the obligor on the 2013 Bonds, the City will be subject to federal securities law anti-fraud rules and will be required to certify that the information contained in the Official Statements is complete and is not misleading. To support these certifications, the City will receive opinions and certificates of other parties.

Continuing Disclosure Certificate. In connection with the issuance of the 2013 Bonds, the City is required by federal securities law to execute a Continuing Disclosure Certificate. The Continuing Disclosure Certificate obligates the City to file an annual report which includes the audited financial statements of the City. The City is also required to report certain events which are significant to 2013 bond owners. The City currently provides such an annual report in connection with the 2001 Bonds.

In addition, the Resolutions authorize staff to prepare documents to terminate the recorded liens securing the 2001 bonds upon the redemption of the 2001 Bonds.

All legal documents associated with the refinancing are in substantially final form, and on file available for review with the City Clerk/Authority Secretary. These documents will be in final form once the 2013 Bonds have been priced and sold.

Respectfully submitted,



Gilbert Rojas
Director of Finance

RESOLUTION NO. 2013-28

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ESCONDIDO AUTHORIZING THE EXECUTION AND DELIVERY BY THE CITY OF A GROUND LEASE, LEASE AGREEMENT, INDENTURE, ESCROW AGREEMENT, CONTINUING DISCLOSURE CERTIFICATE AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF ESCONDIDO JOINT POWERS FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2013A, APPROVING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$5,500,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

WHEREAS, the City of Escondido, California (the "City") is a municipal corporation and general law city duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "State"); and

WHEREAS, the City previously financed a portion of the costs of the acquisition, construction and installation of certain capital improvements constituting the Reidy Creek Golf Course, with related flood control detention basin, water well and ancillary facilities and related improvements, facilities and equipment (the "2001 Project"); and

WHEREAS, in order to accomplish such financing, the City determined to provide the funds necessary to finance the acquisition, construction and installation of the 2001 Project through the issuance by the Escondido Joint Powers Financing Authority (the "Authority") of its 2001 Lease Revenue Bonds (Reidy Creek Project) (the "2001 Bonds"), payable from certain base rental payments to be made by the City under a lease agreement; and

WHEREAS, the City desires to refinance all or a portion of the 2001 Project originally financed with the proceeds of the 2001 Bonds; and

WHEREAS, the Authority and the City have determined that it would be in the best interests of the City and residents of the City to authorize the preparation, sale and delivery of the "Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A" (the "Bonds") for the purpose of financing the 2013 Project and refinancing the 2001 Bonds and the City's related base rental payments; and

WHEREAS, in order to facilitate the issuance of the Bonds, the City and the Authority desire to enter into a Ground Lease between the City and the Authority (the "Ground Lease") pursuant to which the City will lease certain real property (which real property shall consist of the same assets subject to the lease agreement related to the 2001 Bonds (the "Leased Assets")) to the Authority, and a Lease Agreement between the City and the Authority (the "Lease Agreement"), pursuant to which the City will lease the Leased Assets back from the Authority, and pay certain Base Rental Payments (as defined in the Lease Agreement), which are pledged to the owners of the Bonds by the Authority pursuant to an Indenture by and among The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), the City and the Authority (the "Indenture"); and

WHEREAS, the City and the Authority have determined that debt service savings can be achieved by the prepayment and defeasance of the 2001 Bonds; and

WHEREAS, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide the funds necessary to refinance

the 2001 Project originally financed with the proceeds of the 2001 Bonds through the offering and sale of the Bonds; and

WHEREAS, the defeasance of the 2001 Bonds to be prepaid will be accomplished by means of an Escrow Agreement (the "Escrow Agreement") by and among The Bank of New York Mellon Trust Company, N.A., as escrow agent ("Escrow Agent"), the City and the Authority, the form of which has been presented to this City Council at the meeting at which this Resolution is being adopted; and

WHEREAS, the Bonds will be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code (the "Act"); and

WHEREAS, the City and the Authority desire to provide for the negotiated sale of the Bonds; and

WHEREAS, the City and the Authority have selected Stifel, Nicolaus & Co. Inc., dba Stone & Youngberg, a Division of Stifel Nicolaus, to act as underwriter (the "Underwriter") to purchase the Bonds from the Authority pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement"); and

WHEREAS, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12") requires that, in order to be able to purchase or sell the Bonds, the underwriter thereof must have reasonably determined that the City has undertaken in a written agreement or contract for the benefit of the holders of the Bonds to provide disclosure of certain financial information and certain events on an ongoing basis; and

WHEREAS, in order to cause such requirement to be satisfied, the City desires to execute and deliver a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate"); and

WHEREAS, a form of the Preliminary Official Statement (the "Preliminary Official Statement") has been prepared; and

WHEREAS, the City is a member of the Authority and the 2001 Project is located within the boundaries of the City; and

WHEREAS, the City Council has been presented with the form of each document referred to herein relating to the refinancing contemplated hereby, and the City Council has examined and approved each document and desires to authorize and direct the execution of such documents and the consummation of such refinancing; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of such refinancing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such refinancing for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Escondido that:

SECTION 1. Each of the above recitals is true and correct. The City Council

hereby further finds and determines that there are significant public benefits to the citizens of the City through the use of the Act to assist the City with respect to the subject matter hereof through the approval of the issuance of the Bonds and otherwise hereunder within the meaning of Section 6586(a) through (d), inclusive, of the Act, in that the issuance of the Bonds and related transactions will result in demonstrable savings in effective interest rate to the City.

SECTION 2. The forms of the Ground Lease and Lease Agreement, on file with the City Clerk, are hereby approved, and the Mayor, the City Manager, the Finance Director and the City Clerk (the "Authorized Officers"), are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Ground Lease and Lease Agreement in substantially said forms, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the term of the Ground Lease and Lease Agreement shall terminate no later than September 1, 2030 (provided that such term may be extended as provided therein) and the true interest cost applicable to the interest components of the Base Rental Payments shall not exceed 3.75% per annum.

SECTION 3. The form of Indenture, on file with the City Clerk, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Indenture in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that

the aggregate principal amount of the Bonds shall not exceed \$5,500,000, the final maturity date of the Bonds shall be no later than September 1, 2030 and the true interest cost applicable to the Bonds shall not exceed 3.75% per annum, and, provided, further, that such changes, insertions and omissions shall be consistent with the terms of the Bonds established at negotiated sale pursuant to the Bond Purchase Agreement.

SECTION 4. The Bond Purchase Agreement, on file with the City Clerk, is hereby approved and the Authorized Officers are each hereby authorized and directed, for and in the name of the City, to execute and deliver the acceptance thereof set forth in the Bond Purchase Agreement, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such requirement or approval to be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Officer; provided, however, that such changes, insertions and omissions shall not result in an aggregate underwriter's discount (not including any original issue discount paid by the Underwriter) from the principal amount of the Bonds in excess of six-tenths of one percent (0.6%) of the aggregate principal amount of the Bonds.

SECTION 5. The issuance of not to exceed \$5,500,000 aggregate principal amount of the Bonds, in the principal amounts, bearing interest at the rates and maturing on the dates as specified in the Indenture as finally executed, is hereby approved.

SECTION 6. The form of the Preliminary Official Statement, with such changes, insertions and omissions therein as may be approved by an Authorized

Officer, is hereby approved, and the use of the Preliminary Official Statement in connection with the offering and sale of the Bonds is hereby authorized and approved. The Authorized Officers are each hereby authorized to certify on behalf of the City that the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12 (except for the omission of certain final pricing, rating and related information as permitted by Rule 15c2-12).

The Authorized Officers are each hereby authorized and directed to furnish, or cause to be furnished, to prospective bidders for the Bonds a reasonable number of copies of the Preliminary Official Statement. A copy of the Preliminary Official Statement is attached as Exhibit "A" to this Resolution and incorporated by this reference.

SECTION 7. The preparation and delivery of an Official Statement, and its use in connection with the offering and sale of the Bonds, is hereby authorized and approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as may be approved by an Authorized Officer, such approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Officers are each hereby authorized and directed, for and in the name of and on behalf of the City, to execute the final Official Statement and any amendment or supplement thereto for and in the name and on behalf of the City.

SECTION 8. The form of Escrow Agreement, on file with the City Clerk, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Escrow

Agreement in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 9. The form of Continuing Disclosure Certificate, on file with the City Clerk, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Continuing Disclosure Certificate in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced to the execution and delivery thereof.

SECTION 10. The officers, employees and agents of the City are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, including, but not limited to, the execution and delivery of agreements terminating the leasehold and subleasehold interests of the Authority securing the 2001 Bonds (including, but not limited to, the Termination of Ground Lease and Termination of Lease Agreement substantially in the forms on file with the City Clerk) and relating to the existing use agreements with private operators located on the Leased Assets. All actions heretofore taken by the officers, employees and agents of the City with respect to the transactions set forth above are hereby approved, confirmed and ratified.

SECTION 11. This Resolution shall take effect from and after its date of adoption.

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY __, 2013

NEW ISSUE – BOOK-ENTRY ONLY

RATING: S&P: “_”
See the caption “RATING”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2013A Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the Series 2013A Bonds.

\$ _____
**ESCONDIDO JOINT POWERS FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2013A**

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A (the “Series 2013A Bonds”) are payable from base rental payments (the “Base Rental Payments”) to be made by the City of Escondido (the “City”) for the right to use certain real property consisting of an 18-hole golf course, related flood water detention basin, water well and ancillary facilities and related improvements, facilities and equipment (collectively, the “Property”) pursuant to a Lease Agreement, dated as of February 1, 2013 (the “Lease Agreement”), by and between the City, as lessee, and the Escondido Joint Powers Financing Authority (the “Authority”), as lessor. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS.”

The Series 2013A Bonds are being issued to provide funds: (i) to currently refund the Authority’s 2001 Lease Revenue Bonds (Reidy Creek Project) (the “2001 Bonds”); and (ii) to pay the costs incurred in connection with the issuance of the Series 2013A Bonds. See the caption “THE REFUNDING PLAN.” The City has covenanted under the Lease Agreement to make all Base Rental Payments provided for therein, to include all such payments as a separate line item in its annual budgets and to make all the necessary annual appropriations for such Base Rental Payments. The City’s obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defects in title to the Property, there is substantial interference with the City’s right to use and occupy any portion of the Property. See the caption “RISK FACTORS—Abatements.”

The Series 2013A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Interest on the Series 2013A Bonds is payable semiannually on September 1, 2013 and each March 1 and September 1 thereafter. Purchasers will not receive certificates representing their interest in the Series 2013A Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series 2013A Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the Beneficial Owners of the Series 2013A Bonds. See the caption “THE SERIES 2013A BONDS—Book-Entry Only System.”

The Series 2013A Bonds will be issued pursuant to an Indenture, dated as of February 1, 2013 (the “Indenture”), by and among the City, the Authority and the Trustee. The Series 2013A Bonds and any additional bonds issued pursuant to the Indenture (“Additional Bonds”) are collectively referred to as the “Bonds.”

The Series 2013A Bonds are subject to optional and extraordinary redemption prior to maturity as described under the caption “THE SERIES 2013A BONDS—Redemption.”

The Series 2013A Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California (the “State”), or any political subdivision thereof, is pledged to the payment of the Series 2013A Bonds.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does 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 or the State has levied or pledged any form of taxation. The Authority has no taxing power.

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

The Series 2013A Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Stradling Yocca Carlson and Rauth, a Professional Corporation, Newport Beach, California, is also acting as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City and the Authority by Jeffrey Epp, Esquire, City Attorney and General Counsel to the Authority, for the Underwriter by Best Best & Krieger LLP and for the Trustee by its counsel. It is anticipated that the Series 2013A Bonds will be available for delivery through the facilities of DTC on or about March 21, 2013.

[STONE & YOUNGBERG LOGO]

Dated: February __, 2013

* Preliminary; subject to change.

\$ _____ *

**ESCONDIDO JOINT POWERS FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2013A**

MATURITY SCHEDULE

BASE CUSIP^{®†}: _____

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP^{®†}</i>
	\$	%	%	

* Preliminary; subject to change.

† CUSIP[®] is a registered trademark of the American Bankers Association. Copyright © 1999-2013 Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. All rights reserved. CUSIP[®] data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP[®] numbers are provided for convenience of reference only. None of the City, the Authority or the Underwriter takes any responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the City or the Authority to give any information or to make any representations in connection with the offer or sale of the Series 2013A Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2013A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Series 2013A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

This Official Statement and the information contained herein are subject to completion or amendment without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority or any other parties described herein since the date hereof. 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. This Official Statement is being submitted in connection with the sale of the Series 2013A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

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

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

IN CONNECTION WITH THE OFFERING OF THE SERIES 2013A BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013A 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 SERIES 2013A BONDS TO CERTAIN DEALERS, DEALER BANKS, BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE SERIES 2013A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website; however, information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2013A Bonds.

CITY OF ESCONDIDO

MAYOR AND MEMBERS OF THE CITY COUNCIL

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

ESCONDIDO JOINT POWERS FINANCING AUTHORITY

Sam Abed, Chairperson
Olga Diaz, Chairperson Pro Tem
Michael Morasco, Member
Ed Gallo, Member
John Masson, Member

STAFF

Clay Phillips, City Manager/Authority Secretary
Jeffrey Epp, Esq., City Attorney/Authority Counsel
Gil Rojas, City Finance Director/Authority Auditor/Treasurer
Kenneth Hugins, Treasurer
Ed Domingue, Director of Public Works
Diane Halverson, City Clerk

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

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

Trustee

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

Verification Agent

Causey, Demgen & Moore Inc.
Denver, Colorado

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**ESCONDIDO JOINT POWERS FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2013A**

INTRODUCTION

This Official Statement, which includes the cover page and the appendices hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the \$ _____* aggregate principal amount of Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds").

The net proceeds of the sale of the Series 2013A Bonds will be used: (i) to currently refund the Escondido Joint Powers Financing Authority 2001 Lease Revenue Bonds (Reidy Creek Project) (the "2001 Bonds"), which are currently outstanding in the aggregate principal amount of \$5,205,000; and (ii) to pay the costs incurred in connection with the issuance of the Series 2013A Bonds.

The Series 2013A Bonds are equally and ratably payable from rental payments (the "Base Rental Payments") to be made by the City of Escondido (the "City") for the right to use certain real property consisting of an 18-hole golf course, related flood water detention basin, water well and ancillary facilities and related improvements, facilities and equipment (collectively, the "Property") pursuant to a Lease Agreement, dated as of February 1, 2013 (the "Lease Agreement"), by and between the City, as lessee, and the Escondido Joint Powers Financing Authority (the "Authority"), as lessor.

The Series 2013A Bonds will be issued pursuant to an Indenture, dated as of February 1, 2013 (the "Indenture"), by and among the Authority, the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to the Indenture, the Authority may issue additional bonds (the "Additional Bonds") payable from the Base Rental Payments on a parity with the Series 2013A Bonds (the Series 2013A Bonds and any such Additional Bonds being collectively referred to as the "Bonds").

Pursuant to a Ground Lease, dated as of February 1, 2013 (the "Ground Lease"), by and between the City and the Authority, the City has leased the Property to the Authority. The Authority has subleased the Property to the City under the Lease Agreement. The Lease Agreement obligates the City to make Base Rental Payments to the Authority.

The Trustee and the Authority have entered into an Assignment Agreement, dated as of February 1, 2013 (the "Assignment Agreement"), pursuant to which the Authority has assigned to the Trustee for the benefit of the Bond Owners substantially all of the Authority's right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement and to enforce any remedies in the event of a default by the City.

The City will covenant under the Lease Agreement to take such action as may be necessary to include all Rental Payments, which are comprised of Base Rental Payments and Additional Rental Payments (consisting of taxes and assessments affecting the Property, administrative costs of the Authority relating to the Property, fees and expenses of the Trustee and other amounts payable under the Lease Agreement) due under the Lease Agreement as a separate line item in its annual budgets, and to make the necessary annual appropriations therefor, subject to abatement as described in this Official Statement.

Base Rental Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City's right to use and occupy the Property or any portion thereof. See the caption "RISK FACTORS—Abatements." Abatement of Base Rental Payments under the Lease Agreement, to the extent that payment is not made from alternative sources as described in this Official

* Preliminary; subject to change.

Statement, would result in all Bond Owners receiving less than the full amount of principal of and interest on the Bonds. To the extent that proceeds of insurance are available, Base Rental Payments (or a portion thereof) may be made during periods of abatement.

THE SERIES 2013A BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE CITY OR THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE SERIES 2013A BONDS. THE AUTHORITY HAS NO TAXING POWER.

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES 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 OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Neither the City nor the Authority has established a reserve fund in connection with the issuance of the Series 2013A Bonds.

The Series 2013A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Interest on the Series 2013A Bonds is payable semiannually on September 1, 2013 and each March 1 and September 1 thereafter. Purchasers will not receive certificates representing their interest in the Series 2013A Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest on the Series 2013A Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants, which are obligated to remit such payments to the Beneficial Owners of the Series 2013A Bonds. See the caption "THE SERIES 2013A BONDS—Book-Entry Only System."

The Series 2013A Bonds are subject to optional and extraordinary redemption prior to maturity as described under the caption "THE SERIES 2013A BONDS—Redemption."

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Trustee with respect to the Series 2013A Bonds. The Series 2013A Bonds will be issued subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed upon for the City and the Authority by Jeffrey Epp, Esquire, City Attorney and General Counsel to the Authority, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Best Best & Krieger LLP and for the Trustee by its counsel.

The City's financial statements for the fiscal year ended June 30 (each, a "Fiscal Year"), 2012 included as Appendix B hereto have been audited by Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California (the "Auditor"). The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit review of the financial condition of the City.

Certain events could affect the ability of the City to make the Base Rental Payments when due. See the caption "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Series 2013A Bonds.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and, except for a budget discussion for Fiscal Year 2013, is not intended to indicate

future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries or references to the Indenture, the Lease Agreement, the Ground Lease, the Assignment Agreement and other documents, agreements and statutes referred to herein, and the description of the Series 2013A Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entireties by reference to each such document or statute. All capitalized terms used in this Official Statement and not otherwise defined have the meanings set forth in Appendix A.

THE SERIES 2013A BONDS

General

The Series 2013A Bonds will be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The Series 2013A Bonds will be dated as of and bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the dated date thereof at the rates set forth on the inside cover page hereof. Interest on the Series 2013A Bonds will be paid semiannually on September 1, 2013 and each March 1 and September 1 thereafter (each, an "Interest Payment Date").

Interest on the Series 2013A Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof unless: (a) a Series 2013A Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date; (b) a Series 2013A Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the dated date thereof; or (c) interest on any Series 2013A Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the Persons in whose names the ownership of the Series 2013A Bonds is registered on the records maintained by the Trustee for the registration of ownership and registration of transfer of the Series 2013A Bonds pursuant to the Indenture (the "Registration Books") at the close of business on the immediately preceding Record Date, except as provided in the Indenture. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Series 2013A Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the Series 2013A Bonds will be payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the Office of the Trustee.

Registration, Transfers and Exchanges

The Series 2013A Bonds will be issued as fully registered bonds, registered in the name of Cede & Co., as nominee of DTC, and will be available to actual purchasers of the Series 2013A Bonds (the "Beneficial Owners") in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in Appendix E) as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series 2013A Bonds. See the caption "—Book-Entry Only System."

Redemption

Optional Redemption. The Series 2013A Bonds maturing on or after September 1, 20__, are subject to optional redemption, in whole or in part, on any date on or after September 1, 20__, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Lease Agreement, at a Redemption Price equal to the principal amount of the Series 2013A Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Extraordinary Redemption from Condemnation Award or Insurance Proceeds. The Series 2013A Bonds are subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property, deposited by the Trustee in the Redemption Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount of the Series 2013A Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption: (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Authority; (b) with respect to any redemption from and to the extent of any insurance proceeds or condemnation award received with respect to all or a portion of the Property and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable; and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion deems appropriate and fair. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Bonds which may be separately redeemed.

Notice of Redemption. So long as the Bonds are held in book-entry form, notices of redemption will be mailed by the Trustee only to DTC and not to any Beneficial Owners. The Trustee on behalf and at the expense of the Authority will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption. Such notice will state the date of the notice, the redemption date, the redemption place and the Redemption Price and designate the CUSIP numbers, the Bond numbers and the maturity or maturities (except in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and will require that such Bonds be then surrendered at the Office of the Trustee for redemption at the Redemption Price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Such notice may state that such redemption is conditioned upon sufficient funds being on deposit on the redemption date to redeem the Bonds so called for redemption. Such notice of redemption may also state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds. Neither the failure to receive any notice so mailed, nor any defect in such notice, will affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

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

Effect of Notice of Redemption. Notice having been mailed as set forth in the Indenture, and moneys for the Redemption Price, and the interest to the applicable date fixed for redemption, having been set aside in

the Redemption Fund, the Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds will be paid at the Redemption Price thereof, together with interest accrued and unpaid to said date.

If, on the date fixed for redemption, moneys for the Redemption Price of all the Bonds to be redeemed, together with interest to said date, will be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof has been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds will be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon. All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture will be canceled upon surrender thereof and destroyed.

Book-Entry Only System

General. DTC will act as securities depository for the Series 2013A Bonds. The Series 2013A Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Series 2013A Bond will be issued for each maturity of the Series 2013A Bonds, each in the initial aggregate principal amount of such maturity, and will be deposited with DTC. See Appendix E for further information with respect to DTC and its book-entry only system.

Transfer and Exchange of Bonds. The following provisions regarding the exchange and transfer of the Series 2013A Bonds apply only during any period in which the Series 2013A Bonds are not subject to DTC's book-entry system. While the Series 2013A Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds is surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds in a like aggregate principal amount, in any Authorized Denomination. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other authorized denominations. The Trustee will require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee is not obligated to make any transfer or exchange of Bonds during the period established by the Trustee for the selection of Bonds for redemption, or with respect to any Bonds selected for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS

Pledge of Revenues

The Series 2013A Bonds are equally and ratably payable from and secured by Base Rental Payments and certain amounts on deposit in the funds and accounts established under the Indenture. Base Rental Payments will be paid by the City from any and all legally available funds. See the captions "THE CITY," "CITY FINANCIAL INFORMATION" and "RISK FACTORS." The City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental

Payments due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

Pursuant to the Assignment Agreement, the Authority will assign to the Trustee for the benefit of the Series 2013A Bond Owners all of the Authority's right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, the Authority's right to receive Base Rental Payments to be paid by the City under and pursuant to the Lease Agreement; provided that the Authority will retain the rights to indemnification and to payment of reimbursement of its reasonable costs and expenses under the Lease Agreement. The City will pay Base Rental Payments directly to the Trustee, as assignee of the Authority. See the caption "—Base Rental Payments" below. Pursuant to the Indenture, the Authority may issue Additional Bonds payable from the Base Rental Payments on a parity with the Series 2013A Bonds. See Appendix A under the caption "INDENTURE—ISSUANCE OF BONDS; APPLICATION OF PROCEEDS."

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Base Rental Payments and any other amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund are pledged by the Authority pursuant to the Indenture to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms, the provisions of the Indenture and the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code. Said pledge constitutes a first lien on such assets.

THE SERIES 2013A BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM BASE RENTAL PAYMENTS AND THE OTHER ASSETS PLEDGED THEREFOR 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 SERIES 2013A BONDS. THE AUTHORITY HAS NO TAXING POWER.

Base Rental Payments

Rental Payments, including Base Rental Payments, will be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid. Each Base Rental Payment will be deposited with the Trustee no later than the 15th day of the month next preceding each Interest Payment Date on which such Base Rental Payment is due. All Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority to the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

Pursuant to the Indenture, on the Business Day immediately preceding each Interest Payment Date and on the Business Day immediately preceding each Principal Payment Date, the Trustee will transfer amounts in the Base Rental Payment Fund as are necessary to the Interest Fund and the Principal Fund to provide for the payment of the interest on and principal of the Series 2013A Bonds.

Scheduled Base Rental Payments relating to the Series 2013A Bonds are set forth below under the caption "BASE RENTAL PAYMENT SCHEDULE."

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES 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 OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Additional Rental Payments

For the right to use and occupy the Property, the Lease Agreement requires the City to pay, as Additional Rental Payments thereunder, in addition to the Base Rental Payments, such amounts as are required for the payment of the following:

- (a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;
- (b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease Agreement or to defend the Authority and its members, officers, agents and employees;
- (c) Insurance premiums for all insurance required pursuant to the Lease Agreement;
- (d) Any amounts with respect to the Lease Agreement or the Bonds required to be rebated to the federal government in accordance with section 148(f) of the Internal Revenue Code of 1986, as amended (the "Code"); and
- (e) All other payments required to be paid by the City under the provisions of the Lease Agreement or the Indenture.

Amounts constituting Additional Rental Payments payable under the Lease Agreement will be paid by the City directly to the person or persons to whom such amounts are payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Abatement

Base Rental Payments and Additional Rental Payments are payable by the City in each Rental Period for and in consideration of the right to use and occupy the Property. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments are subject to abatement proportionately, and the City waives the benefits of Civil Code §§ 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period.

Any such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided in the Lease Agreement, except that the term will in no event be extended ten years beyond the stated termination date of the Lease Agreement. The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Base Rental Payments and Additional Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of

any remedy against the City. See Appendix A under the caption "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement."

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments due under the Lease Agreement in any of the funds and accounts established under the Indenture (including as a result of the availability of insurance proceeds), such Rental Payments will not be abated as provided above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts. See the caption "RISK FACTORS—Abatements" and Appendix A.

Substitution, Addition and Removal of Property

The Authority and the City may amend the Lease Agreement to substitute alternate real property for any portion of the Property, to add additional real property or to release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement and described below. After a substitution or release, the portion of the Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement.

The Lease Agreement provides that there will be no reduction in or abatement of the Base Rental Payments due from the City thereunder as a result of such substitution or release. Any such substitution or release is subject to the following specific conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the City finds (and delivers a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release: (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period; and (ii) has a useful life in excess of the final maturity of any Outstanding Bonds;

(b) the City obtains or causes to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in an amount at least equal to the aggregate principal amount of any Outstanding Bonds, of the type and with the endorsements described in the Lease Agreement;

(c) the City provides the Trustee with an opinion of counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the City, the Authority and the Trustee execute, and the City causes to be recorded with the Orange County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease; and

(e) the City provides notice of such substitution to each rating agency then rating the Bonds.

See Appendix A under the caption "LEASE AGREEMENT—NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE—Substitution or Release of the Property."

Action on Default

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the City, or may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis, and will have the right to re-enter and re-let the Property. In the event that such re-letting occurs, the City would be liable for any resulting deficiency in Base Rental Payments. Base Rental Payments may not be

accelerated upon a default under the Lease Agreement. See the caption "RISK FACTORS—Limited Recourse on Default; No Acceleration of Base Rental."

For purposes of certain actions of Bond Owners under the Indenture and the Lease, such as certain consents and amendments and the direction of remedies following default, Series 2013A Bond Owners do not act alone and may not control such matters to the extent that such matters are not supported by the requisite number of the Owners of all Series 2013A Bonds and Additional Bonds, if any.

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 A under the captions "LEASE AGREEMENT—DEFAULTS AND REMEDIES" and "INDENTURE—DEFAULT AND LIMITATIONS OF LIABILITY."

No Reserve Fund

Neither the City nor the Authority has established a reserve fund in connection with the issuance of the Series 2013A Bonds.

Insurance

The Lease Agreement requires the City to maintain or cause to be maintained fire, lightning and special extended coverage insurance (which includes coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. The City has an insurance policy which provides replacement cost coverage. All insurance required to be maintained pursuant to the Lease Agreement may be subject to a deductible in an amount not to exceed \$500,000. The City's obligation to maintain the insurance described above (except for rental interruption insurance) may be satisfied by self-insurance, provided that such self-insurance complies with the requirements of the Lease Agreement. See Appendix A under the caption "LEASE AGREEMENT—INSURANCE."

The Lease Agreement requires the City to maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the casualty insurance described in the preceding paragraph, in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City is not permitted to self-insure its obligation to maintain rental interruption insurance.

The City is also required to maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees, and worker's compensation insurance as described in Appendix A under the caption "LEASE AGREEMENT—INSURANCE."

A description of insurance coverages maintained by the City is set forth under the caption "THE CITY—Risk Management."

The City is required under the Lease Agreement to provide, at its own expense, one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Series 2013A Bonds, insuring the fee interest of the City in the Property, the Authority's leasehold estate in the Property under the Ground Lease, and the City's subleasehold estate in the Property under the Lease Agreement, subject only to Permitted Encumbrances, and providing that all proceeds thereunder are payable to the Trustee for the benefit of the Owners.

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series 2013A Bonds are shown below.

Sources⁽¹⁾	
Principal Amount of Series 2013A Bonds	\$
2001 Bonds Reserve Fund	
Plus/Less Net Original Issue Premium/Discount	
Total Sources	<u>\$</u>
Uses⁽¹⁾	
Escrow Fund	\$
Costs of Issuance ⁽²⁾	
Total Uses	<u>\$</u>

⁽¹⁾ Rounded to the nearest dollar.

⁽²⁾ Includes certain fees of Bond Counsel, Disclosure Counsel, rating agencies and the Trustee, Underwriter's discount, printing costs and other miscellaneous costs of issuance.

BASE RENTAL PAYMENT SCHEDULE

The annual schedule of Base Rental Payments due with respect to the Series 2013A Bonds is set forth below.

<i>Lease Payment Date (September 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2013	\$	\$	\$
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>

THE REFUNDING PLAN

General

The 2001 Bonds, which are currently outstanding in the aggregate principal amount of \$5,205,000, were issued by the Authority pursuant to an Indenture of Trust, dated as of March 1, 2001 (the "2001 Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., formerly

known as BNY Western Trust Company, as trustee (the "2001 Trustee"). The 2001 Bonds are payable from lease payments made by the City under the Lease Agreement, dated as of March 1, 2001 (the "2001 Lease Agreement"), by and between the Authority, as lessor, and the City, as lessee. The Authority plans to apply a portion of the proceeds of the Series 2013A Bonds, together with certain moneys on deposit with the 2001 Trustee, to pay all principal of and interest on the 2001 Bonds on or about five days after the issuance of the Series 2013A Bonds (the "Redemption Date") at a redemption price equal to the principal amount thereof plus accrued interest to the Redemption Date, without premium.

Under an Escrow Agreement, dated as of February 1, 2013 (the "2001 Escrow Agreement"), by and among the City, the Authority and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "2001 Escrow Agent") and as 2001 Trustee, the Authority will deliver a portion of the proceeds of the Series 2013A Bonds to the 2001 Escrow Agent for deposit in the escrow fund (the "2001 Escrow Fund") established under the 2001 Escrow Agreement on or about the date of issuance of the Series 2013A Bonds. In addition, the 2001 Trustee will transfer certain moneys held in connection with the 2001 Bonds to the 2001 Escrow Agent for deposit in the 2001 Escrow Fund on or about the date of issuance of the Series 2013A Bonds. The 2001 Escrow Agent will apply the moneys on deposit in the 2001 Escrow Fund to pay all principal of and accrued interest on the 2001 Bonds on the Redemption Date.

Sufficiency of the amounts on deposit in the 2001 Escrow Fund for such purpose will be verified by Causey, Demgen & Moore Inc., Denver, Colorado (the "Verification Agent"). Assuming the accuracy of such computations, as a result of the deposit and application of the funds as provided in the 2001 Escrow Agreement, the 2001 Bonds will be defeased pursuant to the provisions of the 2001 Indenture and the 2001 Lease Agreement as of the date of issuance of the Series 2013A Bonds.

The amounts held by the 2001 Escrow Agent in the 2001 Escrow Fund are pledged solely to the payment of the 2001 Bonds. Neither the funds deposited in the 2001 Escrow Fund nor any interest thereon will be available for the payment of the principal of or interest on the Series 2013A Bonds.

Verification

Upon issuance of the Series 2013A Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to: (a) the sufficiency of the amounts deposited in the 2001 Escrow Fund to pay all principal of and accrued interest on the 2001 Bonds on the Redemption Date; and (b) the computations of yield of the Series 2013A Bonds which support Bond Counsel's opinion that the interest on the Series 2013A Bonds is excluded from gross income for federal income tax purposes.

THE PROPERTY

The Property consists of an 18-hole public golf course and related flood water detention basin, water well and ancillary facilities and related improvements, facilities and equipment. The golf course opened to the public in 2002. Partially situated within a master planned community of single family homes, the golf course is located on approximately 65 acres in the City on North Broadway between Country Club Lane/Rincon Avenue and north of Jesmond Dene Road.

The golf course is a 2,582 yard course with all par 3 holes and a rating of 51.4 – 54.6. The holes on both the front nine and back nine range in distance from approximately 90 yards to 200 yards. There are numerous water features (ponds and creek) and sand bunkers included in the course design. The site topography allows walking by most golfers, with pull carts and motorized carts available.

A portion of the golf course is designed as a flood control detention basin to reduce peak-flow stormwater runoff from the adjacent Reidy Creek. The basin consists of an approximately 100 foot wide naturally contoured drainage channel with a 40 foot wide natural bottom. Channel slope heights range from

less than 10 feet to approximately 15 feet. Flows from Reidy Creek that exceed system capacity from north of the site are diverted and detained west of North Broadway on holes 11 through 17 of the golf course. In addition, a water well has been constructed in the area of the flood control detention basin. The Property has been designed in a manner that will subject the detention basin to flooding during a ten year flood event. The golf course has been designed with elevated tees and greens that are not subject to flooding and in a manner designed to alleviate flood damage.

The golf course is operated and maintained by JC Resorts pursuant to a Lease and Concession Agreement, dated as of July 1, 2012, by and between the City and JC Resorts LLC, a Delaware limited liability company, and a Golf Course Consulting and Management Agreement, dated as of July 1, 2012, by and between the City and JC Management LLC, a California limited liability company (collectively, the "Management Agreements"). Pursuant to the terms of the Lease Agreement, the Management Agreements, which expire on June 30, 2022, are Permitted Encumbrances on the Property. Under the Management Agreements, the City is permitted to sell, lease and otherwise encumber the golf course without the consent of JC Resorts. However, transferees are required to take their interest subject to JC Resorts' rights under the Management Agreements (the "Non-Disturbance Rights"). As a result, in the event of a default by the City in the payment of Rental Payments under the Lease Agreement, the ability of the Trustee to sell or re-let the golf course may be severely limited. Alternatively, the amount of money that could be raised through the exercise of such remedies may be materially lower than it would have been in the absence of the Non-Disturbance Rights. See Appendix A under the caption "LEASE AGREEMENT—DEFAULTS AND REMEDIES" for a full description of remedies available in the event of a default by the City under the Lease Agreement.

JC Resorts has managed resort and golf properties since its founding in 1971 and currently operates the Rancho Bernardo Inn Golf Course and Encinitas Ranch Golf Course in San Diego County, the Surf and Sand Resort in Orange County and the Temecula Creek Inn in Riverside County, *inter alia*.

The golf course was designed by Cal Olson Golf Architecture ("Cal Olson"). Since its founding in 1979, Cal Olson has designed golf projects in the continental United States and Hawaii and Japan, Korea, Taiwan, French Polynesia, Singapore, Mexico, Spain and Canada.

A clubhouse, the maintenance facility and concessionaire facilities serving the golf course are not owned by the City and do not constitute part of the Property.

The City has the right to substitute or release all or portion of the Property subject to certain conditions precedent. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Substitution, Addition and Removal of Property."

THE AUTHORITY

The Authority is a public body duly organized and existing under the Joint Exercise of Powers Agreement, dated as of November 20, 1991 (the "JPA Agreement"), by and between the City and the Community Development Commission of the City of Escondido (the "Commission") and under the Constitution and laws of the State. The Authority was formed for the purpose of assisting the financing and refinancing of capital improvement projects of the City and to finance working capital for the City by exercising the powers referred to in the JPA Agreement, including the power to issue bonds to pay the costs of public improvements. Neither the City nor the Commission is responsible for repayment of the obligations of the other. The members of the Board of Directors of the Authority are the members of the City Council of the City.

THE CITY

General

The City is located approximately 30 miles northeast of San Diego, California. The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. For further information concerning the City, see Appendices B and F.

Government and Administration

The City operates under a Council-Manager form of government. The City Manager, appointed by the City Council, serves as the City's chief executive officer and is responsible for overseeing the daily operations of City departments. The City Manager serves as an advisor to the City Council on policy matters impacting the community and the City's organization, supports the informational and policymaking needs of the Council, implements City Council decisions and prepares, manages, and implements the annual budgets for the City, as well as the City's Capital Improvement Program.

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

Other key personnel responsible for management of the City include the Director of Finance. In addition, the City Attorney provides legal services to the City and the Authority.

Gil Rojas is the Director of Finance for the City. Mr. Rojas has served in that capacity since 2000. Prior to that time, Mr. Rojas was Assistant Finance Director with the City of Bakersfield, California. Mr. Rojas' tenure with the City of Bakersfield spanned 21 years, during which he held various positions within the Finance Department as well as the Bakersfield Police Department. Mr. Rojas received his Bachelor's degree in 1977 from San Jose State University. Mr. Rojas is a member of the Government Finance Officer's Association and the California Society of Municipal Finance Officers.

Jeffrey R. Epp is the City Attorney. Mr. Epp has been with the City since 1985. Prior to that time, Mr. Epp served as a prosecutor for the City Attorney's Office of Cheyenne, Wyoming. Mr. Epp obtained a Bachelor's degree in Political Science and a Juris Doctorate degree from the University of Wyoming, where he was also the Senior Editor of the Land and Water Law Review of the University of Wyoming School of Law. Mr. Epp is a member of the International Municipal Lawyers Association, and both the North County and San Diego Bar Association. He has served as the President of the San Diego/Imperial County City Attorneys Association, the League of California Cities Committee on Transportation, Communications and Public Works, on the League's Legal Advocacy Committee and has been a member of the Executive Committee of the Public Law Section of the California State Bar.

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City maintains liability insurance coverage through the San Diego Pooled Insurance Program Authority ("SANDPIPA"), a joint exercise of powers authority of which the City is a member. The City carries a self-insured retention of \$500,000 for liability and is insured for amounts between \$500,000 and \$2,500,000. In addition, SANDPIPA has purchased

excess insurance coverage for amounts between \$2,500,000 and \$47,000,000 for its members, including the City. The City maintains workers' compensation insurance coverage through the California Public Entity Insurance Authority. The City carries a self-insured retention of \$500,000 for workers' compensation and is insured for amounts between \$500,000 and \$5,000,000 through the California State Association of Counties Excess Insurance Authority, a joint exercise of powers authority, with additional reinsurance of \$300,000,000 per occurrence. Claims have not exceeded the City's insurance coverage in any of the last three years.

The City purchases all risk, replacement cost value property insurance coverage through the Public Entity Property Insurance Program, issued through Alliant Insurance Services. The City is one of 12 cities insured by a joint policy with a shared limit of \$1,000,000,000. The City has a deductible of \$10,000 per loss. All facilities and equipment at the Property are insured under the City's property insurance coverage. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Insurance." The City does not carry earthquake coverage.

CITY FINANCIAL INFORMATION

Accounting and Financial Reporting

The City maintains its accounting records in accordance with Generally Accepted Accounting Principles and the standards established by the Governmental Accounting Standards Board ("GASB"). On a semiannual basis, a report is prepared for the City Council and City staff which reviews fiscal performance to date against the budget. Combined financial statements are produced following the close of each Fiscal Year.

The City Council employs an independent certified public accountant who examines at least annually the financial statements of the City in accordance with generally accepted auditing standards, including tests of the accounting records and other auditing procedures as such accountant considers necessary. As soon as practicable, after the end of the Fiscal Year, a final audit and report is submitted by the independent accountant to the City Council.

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. It is expected that the Base Rental Payments will be paid for from amounts in the General Fund. Tables 1 through 4 below set forth certain historical and current Fiscal Year budget information for the General Fund. Information on the remaining governmental funds of the City as of June 30, 2012 is set forth in Appendix B.

Budget Procedure, Current Budget and Historical Budget Information

The City prepares and adopts a budget for each Fiscal Year. Prior to June 30 of each year, the City Manager submits to the City Council a proposed budget for the Fiscal Year commencing the following July 1. The budget includes proposed expenditures and the means of financing such expenditures. Prior to June 30 of each year, public hearings are conducted to obtain public comments and the budget is legally enacted through the passage of a resolution.

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

The City Council adopted the Fiscal Year 2013 budget on June 13, 2012.

Set forth in Table 1 are the General Fund budgets for Fiscal Years 2011, 2012 and 2013 and the audited General Fund results for Fiscal Years 2011 and 2012. During the course of each Fiscal Year, the budget is amended and revised as necessary by the City Council.

TABLE 1
CITY OF ESCONDIDO
GENERAL FUND BUDGETS AND RESULTS

	<i>Adopted Fiscal Year 2011 Budget</i>	<i>Fiscal Year 2011 Results</i>	<i>Adopted Fiscal Year 2012 Budget</i>	<i>Fiscal Year 2012 Results</i>	<i>Adopted Fiscal Year 2013 Budget</i>
Revenues					
Sales tax	\$ 23,247,000	\$ 25,147,482	\$ 26,016,995	\$ 27,753,928	\$ 29,923,000
Other taxes	29,161,000	28,630,700 ⁽¹⁾	30,663,000	31,278,441 ⁽²⁾	30,680,000
Licenses and permits	994,000	1,156,228	1,181,000	821,380	994,000
Fines and forfeits	2,090,000	1,895,447	1,855,000	1,640,528	1,526,000
Intergovernmental	2,665,000	2,769,674 ⁽¹⁾	2,956,000	3,013,268 ⁽²⁾	2,577,500
Charges for services	5,341,000	5,585,867	5,508,430	5,518,276	6,242,000
Investment income	800,000	15,613,188 ⁽³⁾	532,000	479,015	560,000
Miscellaneous	<u>3,296,000</u>	<u>3,826,721</u>	<u>3,379,230</u>	<u>3,834,415</u>	<u>3,359,000</u>
Total Revenues	\$ 67,594,000	\$ 84,625,307	\$ 72,091,655	\$ 74,339,251	\$ 75,861,500
Expenditures					
Current					
General government	\$ 7,566,855	\$ 6,493,939	\$ 6,095,695	\$ 5,561,555	\$ 8,806,525
Public safety	49,116,590	49,456,324	50,134,440	50,492,610	50,553,235
Public works	9,202,245	8,761,589	9,251,405	9,167,920	9,532,355
Community services	6,278,570	6,327,405	5,387,015	5,461,190	4,126,375
Community development	<u>2,814,885</u>	<u>2,651,499</u>	<u>2,845,245</u>	<u>2,720,161</u>	<u>3,018,605</u>
Total Expenditures	\$ 74,979,145	\$ 73,690,756	\$ 73,713,800	\$ 73,403,436	\$ 76,037,095
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (7,385,145)	\$ 10,934,551	\$ (1,622,145)	\$ 935,815	\$ (175,595)

⁽¹⁾ These amounts differ from the Fiscal Year 2011 Other taxes and Intergovernmental amounts shown on Table 2 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."

⁽²⁾ These amounts differ from the Fiscal Year 2012 Other taxes and Intergovernmental amounts shown on Table 2 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."

⁽³⁾ Increase from budgeted amount in Fiscal Year 2011 reflects payment of approximately \$15,100,000 in interest to the General Fund by the City of Escondido Community Development Commission.

Sources: Adopted budgets of the City for Fiscal Years 2011, 2012 and 2013; audited financial statements of the City for Fiscal Years 2011 and 2012.

Change in Fund Balance of the City General Fund

Set forth in Table 2 are the City's audited General Fund statements of revenues, expenditures and changes in fund balance for Fiscal Years 2008 through 2012.

TABLE 2
CITY OF ESCONDIDO
GENERAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	<i>Fiscal Year Ending June 30,</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Revenues					
Sales tax	\$ 30,165,853	\$ 25,403,452	\$ 21,798,209	\$ 25,147,482	\$ 27,753,928
Other taxes	20,820,101	20,943,022	18,676,610	18,321,184 ⁽¹⁾	20,881,587 ⁽²⁾
Licenses and permits	1,042,675	935,154	1,307,415	1,156,228	821,380
Fines and forfeits	2,775,808	2,552,099	2,186,227	1,895,447	1,640,528
Intergovernmental	14,690,429	14,461,112	13,194,970	13,079,190 ⁽¹⁾	13,410,122 ⁽²⁾
Charges for services	6,332,064	6,270,500	6,088,241	5,585,867	5,518,276
Investment income	8,900,446	1,448,155	75,557	15,613,188	479,015
Miscellaneous	3,732,998	3,396,943	4,328,801	3,826,721	3,834,415
Total Revenues	<u>\$ 88,460,374</u>	<u>\$ 75,410,437</u>	<u>\$ 67,656,030</u>	<u>\$ 84,625,307</u>	<u>\$ 74,339,251</u>
Expenditures					
Current					
General government	\$ 7,681,652	\$ 6,280,746	\$ 6,345,031	\$ 6,493,939	\$ 5,542,551
Public safety	55,788,700	52,486,171	50,669,962	49,456,324	50,489,310
Public works	11,140,310	9,851,056	10,457,660	8,761,589	9,145,268
Community services	6,746,842	5,585,036	4,905,872	6,327,405	5,434,919
Community development	4,607,311	4,031,570	3,161,816	2,651,499	2,720,161
Capital outlay	-	-	-	-	52,928
Debt service					
Principal retirements	-	-	-	-	18,299
Interest and fiscal charges	-	-	-	-	-
Total Expenditures	<u>\$ 85,964,815</u>	<u>\$ 78,234,579</u>	<u>\$ 75,540,341</u>	<u>\$ 73,690,756</u>	<u>\$ 73,403,436</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 2,495,559</u>	<u>\$ (2,824,142)</u>	<u>\$ (7,884,311)</u>	<u>\$ 10,934,551</u>	<u>\$ 935,815</u>
Other Financing Sources (Uses)					
Sale of capital assets	\$ -	\$ -	\$ -	\$ 231,586	\$ -
Loan proceeds	-	-	-	-	172,232
Transfers in	1,643,655	2,647,390	2,981,999	3,353,404	4,422,708
Transfers out	(8,831,332)	(5,079,839)	(4,197,365)	(11,415,685)	(1,730,678)
Total Other Financing Sources (Uses)	<u>\$ (7,187,677)</u>	<u>\$ (2,432,449)</u>	<u>\$ (1,215,366)</u>	<u>\$ (7,830,695)</u>	<u>\$ 2,864,262</u>
Net Change in Fund Balance	<u>\$ (4,692,118)</u>	<u>\$ (5,256,591)</u>	<u>\$ (9,099,677)</u>	<u>\$ 3,103,856</u>	<u>\$ 3,800,077</u>
Fund Balances, Beginning of Year	<u>\$ 51,074,083</u>	<u>\$ 46,381,965</u>	<u>\$ 41,125,374</u>	<u>\$ 31,820,260⁽³⁾</u>	<u>\$ 34,924,116</u>
Fund Balances, End of Year	<u>\$ 46,381,965</u>	<u>\$ 41,125,374</u>	<u>\$ 32,025,697</u>	<u>\$ 34,924,116</u>	<u>\$ 38,724,193</u>

⁽¹⁾ These amounts differ from the Fiscal Year 2011 Other taxes and Intergovernmental amounts shown on Table 1 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."

⁽²⁾ These amounts differ from the Fiscal Year 2012 Other taxes and Intergovernmental amounts shown on Table 1 because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "—State of California Motor Vehicle In-Lieu Payments."

⁽³⁾ As restated.

Sources: Audited financial statements for Fiscal Years 2008 through 2012.

General Fund Balance Sheets of the City

Set forth in Table 3 are the City's audited General Fund balance sheets for Fiscal Years 2008 through 2012.

TABLE 3
CITY OF ESCONDIDO
GENERAL FUND BALANCE SHEETS

	<i>Fiscal Year Ending June 30,</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Assets					
Cash and investments	\$ 32,699,001	\$ 28,907,893	\$ 21,301,284	\$ 32,088,917	\$ 31,790,494
Receivables (net)					
Accounts	2,006,949	1,632,400	1,710,145	2,474,736	5,224,649
Interest	516,853	345,153	239,221	307,078	199,926
Taxes	6,167,324	3,935,480	5,748,249	6,481,956	8,140,945
Loan	7,394	121,732	133,750	106,321	74,041
Due from					
Other funds	806,762	218,313	313,020	488,647	1,584,835
Other governments	220,812	143,671	89,900	108,204	14,783,697
Prepaid expenditures	1,202,500	500,000	170,000	270,000	-
Deposits	-	-	-	-	26,250
Advances to other funds	10,141,904	10,141,904	9,991,902	14,192,059	159,250
Total Assets	\$ 53,769,499	\$ 45,946,546	\$ 39,697,471	\$ 56,517,918	\$ 61,984,087
Liabilities and Fund Balances					
Liabilities					
Payable					
Accounts	\$ 1,119,863	\$ 700,692	\$ 1,348,621	\$ 972,306	\$ 1,824,760
Deposits	190,964	113,472	146,498	236,254	314,480
Accrued expenditures	3,542,654	2,804,909	2,876,877	3,013,764	1,179,956
Due to other funds	620,342	337,494	-	-	-
Deferred revenue	1,913,711	864,605	3,299,778	13,171,478	15,400,698
Advances from other funds	-	-	-	4,200,000	4,540,000
Total Liabilities	\$ 7,387,534	\$ 4,821,172	\$ 7,671,774	\$ 21,593,802	\$ 23,259,894
Fund Balances					
Nonspendable	\$ -	\$ -	\$ -	\$ 5,456,377	\$ 233,291
Committed to	-	-	-	28,354,588	31,938,244
Assigned to	-	-	-	713,361	852,481
Unassigned	-	-	-	399,790	5,700,177
Reserved for					
Advances to other funds	10,141,904	10,141,904	9,991,902	-	-
Noncurrent loans receivable	7,394	121,732	133,750	-	-
Prepaid expenditures	-	500,000	170,000	-	-
Encumbrances	-	-	35,655	-	-
Unreserved; designated - General Fund					
Capital improvements	8,074,382	-	-	-	-
Carryovers	1,132,452	19,570	29,710	-	-
Daley Ranch improvements	715,170	111,457	196,465	-	-
Economic development	2,463,216	17,689,216	-	-	-
Economic uncertainty	8,123,842	11,619,254	20,241,562	-	-
Library trust	295,726	391,283	334,213	-	-
Underground waivers	170,403	170,403	191,317	-	-
Downtown hotel	15,226,000	-	-	-	-
Investment fair value adjustment	-	-	701,123	-	-
Undesignated	31,476	360,555	-	-	-
Total Fund Balances	\$ 46,381,965	\$ 41,125,374	\$ 32,025,697	\$ 34,924,116	\$ 38,724,193
Total Liabilities and Fund Balances	\$ 53,769,499	\$ 45,946,546	\$ 39,697,471	\$ 56,517,918	\$ 61,984,087

Source: Audited financial statements for Fiscal Years 2008 through 2012.

Property Taxes

Property tax receipts of \$9,939,516 provided the third largest tax revenue source of the City in Fiscal Year 2012, contributing approximately 20.4% of General Fund tax revenues and approximately 13.4% of total General Fund revenues during Fiscal Year 2012. 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.

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 Fiscal Year 2005 State Budget included an additional \$1.3 billion shift of property taxes from certain local agencies, including the City, in Fiscal Years 2005 and 2006.

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. 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.

On July 27, 2009, the Governor signed a revised Fiscal Year 2010 State budget that included an ERAF shift of approximately 8% of 1% *ad valorem* property tax revenues from certain local agencies, including the City. The City participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and, as a result, received the shifted funds in the amount of \$2,314,710, without interest, in two installments in 2010 from the California Statewide Communities Development Authority.

Set forth in Table 4 are the property tax rates for the three largest tax rate areas within the City by assessed valuation for Fiscal Years 2009 through 2013.

TABLE 4
CITY OF ESCONDIDO
TOTAL TAX RATE PER \$100 OF ASSESSED VALUATION
(TAX RATE AREA NOS. 4-13, 4-25 and 4-225)

	<i>Fiscal Year</i>				
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
General	1.00000	1.00000	1.00000	1.00000	1.00000
Palomar Pomerado Healthcare District	0.01775	0.01775	0.02350	0.02350	0.02350
Escondido Elementary School District	0.02813	0.03269	0.03343	0.03351	0.03367
Escondido Union High School District	0.01723	0.02140	0.02299	0.02494	0.02724
Palomar Community College District	0.01322	0.00862	0.01472	0.01384	0.01365
City of Escondido	0.03666	0.04086	0.04074	0.04067	0.03923
Metropolitan Water District	<u>0.00430</u>	<u>0.00430</u>	<u>0.00370</u>	<u>0.00370</u>	<u>0.00350</u>
Total	1.11729	1.12562	1.13908	1.14016	1.14079

2012-13 Assessed Valuations of Tax Rate Areas

4-13	\$1,631,405,019
4-25	1,448,564,863
4-225	880,484,233

Source: California Municipal Statistics, Inc.

Set forth in Table 5 are the secured and unsecured assessed valuations for property in the City for the Fiscal Years 2009 through 2013.

TABLE 5
CITY OF ESCONDIDO
ASSESSED VALUATION

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2009	\$12,396,660,668	\$191,221,485	\$449,223,142	\$13,037,105,295
2010	11,395,386,920	200,996,794	475,717,296	12,072,101,010
2011	11,230,384,520	206,857,586	450,327,466	11,887,569,572
2012	11,321,440,297	228,696,526	443,202,400	11,993,339,223
2013	11,788,367,465	249,926,044	465,576,321	12,503,869,830

Source: City.

Set forth in Table 6 are property tax collections and delinquencies in the City as of June 30 for Fiscal Years 2008 through 2012. 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 6
CITY OF ESCONDIDO
PROPERTY TAX LEVIES AND COLLECTIONS

<i>Fiscal Year</i>	<i>Total Tax Levy</i>	<i>Current Tax Collections as of June 30</i>	<i>Percent of Levy Collected as of June 30</i>	<i>Outstanding Delinquent Taxes as of June 30⁽¹⁾</i>
2008	\$11,218,291	\$10,495,467	93.56%	\$722,824
2009	10,560,667	10,048,236	95.15	512,431
2010	9,477,871	9,086,734	95.87	391,137
2011	9,382,618	9,097,417	96.96	285,201
2012	9,536,098	9,288,990	97.41	247,108

⁽¹⁾ Reflects delinquencies as of June 30 of the listed Fiscal Year; does not reflect current delinquencies for such Fiscal Years.
Source: City.

The 20 largest taxpayers in the City as shown on the Fiscal Year 2012 secured tax roll, the land use, the assessed valuation and the percentage of the City's total property tax revenues attributable to each are set forth in Table 7.

**TABLE 7
CITY OF ESCONDIDO
TWENTY LARGEST TAXPAYERS**

	<i>Property Owner</i>	<i>Land Use</i>	<i>Fiscal Year 2013 Assessed Valuation</i>	<i>% of Total⁽¹⁾</i>
1.	North County Fair LLC	Commercial	\$179,307,426	1.52%
2.	Prebys Conrad Trust	Residential	75,062,598	0.64
3.	Cox Communications San Diego	Commercial	44,000,409	0.37
4.	Frit Escondido Promenade, LLC	Commercial	43,991,480	0.37
5.	Vons	Commercial	42,193,128	0.36
6.	Luna Properties, LLC	Unknown	41,295,463	0.35
7.	Garrick Motors Inc.	Vacant	38,023,980	0.32
8.	OC/ SD Holdings LLC	Residential	34,814,252	0.30
9.	Felicita Garp LLC	Vacant	30,737,700	0.26
10.	Goal Line LP	Industrial	28,459,926	0.24
11.	MG Morningview Apts. LP	Residential	27,482,004	0.23
12.	Aimco Sunset Escondido LLC	Residential	26,244,504	0.23
13.	Lowe's of Escondido	Commercial	26,118,819	0.22
14.	Emil Rose Partners II LP	Unknown	25,399,169	0.22
15.	PKI Del Norte Plaza LP	Commercial	24,500,000	0.21
16.	New Albertsons Inc.	Commercial	23,700,000	0.20
17.	Realty Associates Fund VIII LP	Commercial	23,500,000	0.20
18.	Escondido MVMBLLC	Residential	22,888,658	0.19
19.	VSCRE Holdings LLC	Unknown	22,700,000	0.19
20.	Williams Portfolio 6	Residential	<u>22,107,662</u>	<u>0.19</u>
	TOTAL		\$802,527,178	6.81%

⁽¹⁾ 2012-13 Local Secured Assessed Valuation: \$11,788,367,465.
Source: City.

Sales Taxes

Sales tax receipts of \$27,753,928 provided the largest tax revenue source for the City in Fiscal Year 2012, contributing approximately 57.1% of General Fund tax revenues and approximately 37.3% of total General Fund revenues during Fiscal Year 2012. Automobile sales and retail sales at Westfield Shoppingtown North County mall contribute significantly to such receipts.

A sales tax is imposed on retail sales or consumption of personal property and collected and distributed by the State Board of Equalization. The basic sales tax rate is established by the State Legislature, and local overrides may be approved by voters. The current sales tax rate in the City is 8%.

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of \$15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the "Triple Flip." The State issued \$11.3 billion of Economic Recovery Bonds prior to June 30, 2004. Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax moneys were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate once the Economic Recovery Bonds are repaid, which is currently expected to occur in approximately 9 to 13 years. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION."

Additional information relating to sales tax receipts by the City is set forth in Appendix F.

Services

Fees of \$5,518,276 collected for services provided by the City in Fiscal Year 2012, including but not limited to fees for plan checks and other planning services, issuance of building permits, police services, paramedic services, public works projects and parks and recreation programs, provided approximately 7.4% of General Fund revenues during Fiscal Year 2012.

State of California Motor Vehicle In-Lieu Payments

The State imposes a Vehicle License Fee (the "VLF"), which is the portion of the fees paid in lieu of personal property taxes on a vehicle. The VLF is based on vehicle value and declines as the vehicle ages. Prior to the adoption of the Fiscal Year 2005 State Budget, the VLF was 2% of the value of a vehicle. Through legislation in prior Fiscal Years, the State enacted VLF reductions under which the State was required to "backfill" local governments for their revenue losses resulting from the lowered fee. The Fiscal Year 2005 State Budget permanently reduced the VLF from 2% to 0.65% of the value of a vehicle and deleted the requirement for backfill payments, providing instead that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties. See the caption "STATE OF CALIFORNIA BUDGET INFORMATION."

As set forth in Table 8 below, for Fiscal Year 2012, the City received \$10,774,275 in total VLF revenues, of which \$10,696,854 was distributed from property tax receipts.

TABLE 8
CITY OF ESCONDIDO
STATE OF CALIFORNIA MOTOR VEHICLE IN-LIEU PAYMENTS

<i>Source</i>	<i>Fiscal Year</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Motor Vehicle In-Lieu Payments	\$11,208,913	\$11,295,813	\$10,464,849	\$10,309,516	\$10,696,854

Source: City.

Indebtedness

General Obligation Debt.

2007 LRBs. On February 14, 2007, the Authority issued the 2007A Lease Revenue Refunding Bonds (1995 Refunding) and 2007B Lease Revenue Refunding Bonds (Taxable) (1995 Refunding) (collectively, the "2007 LRBs") to refinance the costs of constructing and acquiring the California Center for the Arts performing arts center adjacent to the City Civic Center and appurtenant improvements. The 2007 LRBs mature on September 1 of each year through 2018 in amounts ranging from \$1,780,000 to \$7,070,000 and bear interest at rates varying from 3.65% to 5.53% per annum. The 2007 LRBs are secured by lease payments (the "Lease Payments") payable by the City pursuant to a lease/purchase agreement with the Authority. As of June 30, 2012, the 2007 LRBs were outstanding in the aggregate principal amount of \$42,260,000.

The City has covenanted in the lease/purchase agreement to budget and appropriate moneys annually for the Lease Payments from legally available funds, including the General Fund, on a basis that is substantially similar to the Lease Agreement in connection with the Series 2013A Bonds. However, concurrently with the issuance of the 2007 LRBs, the City and the Commission entered into a First Amendment to Amended and Restated Reimbursement Agreement, dated as of January 1, 2007 (the

"Reimbursement Agreement"), pursuant to which the Commission agreed to apply certain tax increment revenues from the Escondido Redevelopment Project Area to the payment of the Lease Payments on substantially the same terms that the Commission had agreed to in connection with the obligations that were refinanced by the 2007 LRBs.

On December 29, 2011, the State Supreme Court upheld Assembly Bill 1x26 ("AB 1x26"), which dissolved redevelopment agencies in the State. The effect of AB 1x26 upon the City is the termination of the Commission's redevelopment functions and the transfer of such functions to a successor agency (the City, referred to in this context as the "Successor Agency") tasked with winding down the Commission's redevelopment activities. Under AB 1x26, the Successor Agency cannot enter into new redevelopment projects or obligations and its assets can be used only to pay enforceable obligations in existence in mid-2011, when AB 1x26 was signed by the Governor. In addition, the Successor Agency will receive tax increment revenues in amounts that are sufficient to pay 100% (but no greater amount) of such enforceable obligations until such obligations are paid in full, at which time the Successor Agency will be dissolved. The Successor Agency's activities are subject to review by an oversight board established under AB 1x26.

Although AB 1x26 generally invalidates agreements between host cities and their former redevelopment agencies, provision is made for the enforcement of agreements entered into with respect to bond obligations which meet certain specified criteria. The City believes that the Successor Agency's payment obligation under the Reimbursement Agreement is an enforceable obligation and the City expects that the Successor Agency will continue to be able to apply tax increment revenues to the payment of the Lease Payments. The City has listed the Reimbursement Agreement in its Recognized Obligation Payment Schedule (the "ROPS"), which is required to be submitted to the State Department of Finance in accordance with AB 1x26. To date, none of the oversight board, the State Department of Finance, the State Controller or other State or County bodies implementing the dissolution of redevelopment have disputed the City's listing of the Reimbursement Agreement as an enforceable obligation on the ROPS. However, there can be no assurance that such entities or a court will not disagree with the City's interpretation and seek to prohibit the Successor Agency from making the Lease Payments in the future.

If the Reimbursement Agreement is held by a court not to be an enforceable obligation of the Successor Agency, the City would be required to pay the Lease Payments from legally available funds, including the General Fund, in accordance with the 2007 LRB documents. As described above, the largest annual Lease Payment under the 2007 LRBs is \$7,070,000. Such payments, if required to be made by the City, would have a material effect on the General Fund until the maturity of the 2007 LRBs in 2018.

The Palomar Community College District ("Palomar") was one of several taxing entities that executed tax sharing agreements with the predecessor to the Commission when the Escondido Redevelopment Project Area was first created in 1984. In late January 2013, Palomar filed a lawsuit alleging that the Commission did not properly share tax increment revenues with Palomar pursuant to Palomar's tax sharing agreement since 1984. If successful, the lawsuit could require the Successor Agency to make a payment to Palomar, which would reduce tax increment revenues available to make payments under the Reimbursement Agreement. Maximum financial exposure to the City is unlikely to exceed \$2,000,000 and resolution in the City's favor is highly likely in light of the recent redevelopment dissolution legislation (AB 1x26) and the fact that all such matters are now overseen by the Successor Agency, an oversight board, and the State Department of Finance. The City is reviewing Palomar's complaint. No answer has been filed in the case, and no court dates have been set.

2006 GO Bonds. On August 22, 2006, the City issued General Obligation Bonds, Election of 2004, Series A (the "2006 GO Bonds") to finance construction, upgrades and land acquisitions for City fire stations, an emergency response training center and a combined police and fire headquarters facility. The 2006 GO Bonds mature on September 1 of each year through 2036 in amounts ranging from \$1,170,000 to \$5,225,000 and bear interest at rates varying from 3.55% to 4.75% per annum. The 2006 GO Bonds are

payable from the General Fund. As of June 30, 2012, the 2006 GO Bonds were outstanding in the aggregate principal amount of \$77,295,000.

CEC Loan. In 2004, the City entered into a loan agreement with the California Energy Commission (the "CEC Loan") to finance various energy conservation projects. Payments under the CEC Loan are payable from several City funds, including the General Fund. As of June 30, 2012, the CEC Loan is outstanding in the aggregate principal amount of \$876,191.

1993 Certificates. In 1993, the City issued caused the execution and delivery of Certificates of Participation (the "1993 Certificates") to finance construction of a municipal golf course. The 1993 Certificates mature on September 1 of each year through 2014 in amounts ranging from \$160,000 to \$345,000 and evidence interest at rates varying from 5.50% to 8.40% per annum. The 1993 Certificates are payable from the General Fund, although the City is entitled to reimbursement from the revenues of the golf course, which has resulted in reimbursements in excess of payments of principal and interest with respect to the 1993 Certificates in each year. As of June 30, 2012, the 1993 Certificates were outstanding in the aggregate principal amount of \$1,790,000.

Other Long Term Debt. As of June 30, 2012, the City had a total of approximately \$64,400,000 aggregate principal amount of obligations payable from revenues of the City's water system, including: (a) installment payments securing the Authority's Revenue Bonds (Water System Financing), Series 2012; (b) installment payments securing the City's Revenue Certificates of Participation, Series 2007; (c) a loan contract entered into with the State Department of Water Resources in 2002; and (d) a loan contract entered into with the State Department of Public Health in 2011.

As of June 30, 2012, the City had a total of approximately \$78,400,000 aggregate principal amount of obligations payable from revenues of the City's wastewater system, including: (a) installment payments securing the Authority's Revenue Bonds (Wastewater System Financing), Series 2012; (b) installment payments securing the City's Revenue Certificates of Participation (2004 Wastewater Capital Projects) Series 2004A; (c) installment payments securing the City's Revenue Certificates of Participation (2004 Wastewater Capital Projects) Series 2004B (Taxable); (d) a loan contract entered into with the State Water Resources Control Board (the "SWRCB") in connection with Phase I of the Hale Avenue Resource Recovery Facility (the "HARRF"); (e) a loan contract entered into with the SWRCB in connection with a Water Reclamation Project; (f) a loan contract entered into with the SWRCB in connection with a Tertiary Treatment Facility at the HARRF; and (g) a loan contract entered into with the SWRCB to finance the acquisition of an automated aeration blower at the HARRF.

Short-Term Debt. The City currently has no short-term debt outstanding.

Estimated Direct and Overlapping Bonded Debt. The estimated direct and overlapping bonded debt of the City as of February 1, 2013 is set forth in Table 9. The information in Table 9 has been derived from data assembled and reported to the City by California Municipal Statistics, Inc. None of the City, the Authority or the Underwriter has independently verified the information in Table 9 and the City, the Authority and the Underwriter do not guarantee its accuracy.

TABLE 9
CITY OF ESCONDIDO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT AS OF FEBRUARY 1, 2013

2012-13 Assessed Valuation: \$12,029,628,486

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/13</u>
Metropolitan Water District	0.570%	\$ 1,120,307
Palomar Community College District	13.312	42,408,558
San Marcos Unified School District	3.628	7,511,484
San Marcos Unified School District School Facilities Improvement District No. 1	2.281	193,840
San Marcos Unified School District Community Facilities District No. 1	100.	960,000
Valley Center Unified School District	0.001	15
Escondido Union High School District	78.053	78,401,738
Escondido Union School District	78.822	34,192,686
San Pasqual Union School District	56.903	296,664
City of Escondido	100.	75,665,000⁽¹⁾
Palomar Pomerado Hospital District	19.369	92,512,456
City of Escondido Community Facilities District No. 2006-01	100.	16,575,000
City of Escondido Hidden Trails Community Facilities District	100.	2,505,000
City of Escondido 1915 Act Bonds	100.	4,860,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$357,202,748
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	3.148%	\$ 12,585,074
San Diego County Pension Obligations	3.148	23,732,701
San Diego County Superintendent of Schools Obligations	3.148	549,720
Palomar Community College District Certificates of Participation	13.312	722,176
San Marcos Unified School General Fund Obligations	3.628	2,012,935
Escondido Union High School District Certificates of Participation	78.053	47,179,136
Escondido Union School District Certificates of Participation	78.822	16,753,616
City of Escondido General Fund Obligations	100.	41,990,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$145,525,358
 <u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Escondido Redevelopment Agency	100. %	\$568,893
TOTAL OVERLAPPING TAX INCREMENT DEBT		\$568,893
 COMBINED TOTAL DEBT		\$503,296,999⁽²⁾

Ratios to 2012-13 Assessed Valuation:

Direct Debt (\$75,665,000)	0.63%
Total Overlapping Tax and Assessment Debt	2.97%
Total Direct Debt (\$117,655,000)	0.98%
Combined Total Debt	4.18%

Ratios to Redevelopment Incremental Valuation (\$2,355,293,134):

Total Overlapping Tax Increment Debt	0.02%
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⁽¹⁾ Excludes issue to be sold.

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

Source: California Municipal Statistics, Inc.

Retirement Contributions

The City contributes to the California Public Employees Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City. Copies of CalPERS' annual financial report may be obtained from its executive office at 400 Q Street, Sacramento, California 95811.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The City currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the City's unfunded actuarial liability. For Fiscal Year 2012, the City's CalPERS contributions for its Safety Plan and its Miscellaneous Plan were \$8,014,667 and \$7,130,591, respectively. Such contributions were equal to the respective annual required contribution (the "ARC") described below. For Fiscal Year 2013, the City's CalPERS contributions for its Safety Plan and its Miscellaneous Plan are expected to be \$7,975,297 and \$8,874,237, respectively, assuming budgeted salaries and contribution rates of 33.701% of annual covered payroll for the Safety Plan and 23.827% of annual covered payroll for the Miscellaneous Plan, which are equal to the respective ARCs. The contribution rates for Fiscal Year 2014 have been established at 34.486% of annual covered payroll for the Safety Plan and 25.150% of annual covered payroll for the Miscellaneous Plan.

Participants under the City's Safety Plan are required to contribute 9% of their annual covered salary; the City pays all of the police employees' required contribution to the Safety Plan. Fire Department employees pay their own required contributions.

Participants in the City's Miscellaneous Plan are required to contribute 8% of their annual covered salary. Prior to June 26, 2011, the City paid 7% of the 8% contributions required of Miscellaneous Plan employees on their behalf and for their account; beginning on June 26, 2011, the City will no longer pay any portion of the contributions required of such employees on their behalf and such employees will be required to make 100% of their required 8% contribution to the CalPERS plan.

On September 12, 2012, the Governor of the State signed Assembly Bill 340 ("AB 340"), which implements pension reform in the State. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate (as described below) for such retirement systems; (ii) prohibits employers from paying employer-paid member contributions to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non-safety benefit formula of 2.5% at age 67; and (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36-month period. The City Council adopted a resolution creating a second tier of CalPERS pension benefits for the City's Safety Plan and Miscellaneous Plan for employees hired after January 1, 2013 to comply with AB 340's compulsory reduced formula. See the caption "—California State Pension Reform Legislation" for further information with respect to AB 340.

The City had an unfunded accrued liability of \$45,580,843 for its Safety Plan as of June 30, 2011, based on an actuarial value of assets of \$219,102,277 as set forth in the most recent actuarial report prepared by CalPERS, and an estimated unfunded accrued liability of \$45,000,000 for the Safety Plan for Fiscal Year 2012. The City had an unfunded accrued liability of \$65,004,799 for its Miscellaneous Plan as of June 30, 2011, based on an actuarial value of assets of \$224,366,487 as set forth in the most recent actuarial report prepared by CalPERS, and an estimated unfunded accrued liability of \$65,000,000 for the Miscellaneous Plan for Fiscal Year 2012.

Under GASB Statement No. 27, an employer reports an annual pension cost equal to the ARC plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation and may be positive or negative. The ARC for Fiscal Year 2012 was determined by an actuarial valuation of the plan as of June 30, 2009 and the ARC for Fiscal Year 2013 has been determined by an actuarial valuation of the plan as of June 30, 2010.

The staff actuaries at CalPERS annually prepare an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered (thus, the actuarial valuation delivered to the City in November 2012 covered the City's Fiscal Year ended June 30, 2011). The actuarial valuations express the City's required contribution rates in percentages of covered payroll, which percentages

the City must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City's contribution rate derived from the actuarial valuation as of June 30, 2010, which was delivered in October 2011, affects the City's Fiscal Year 2013 required contribution rate). CalPERS rules require the City to implement the actuary's recommended rates.

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

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during such Fiscal Year equaled the assumed rate of return, currently 7.75%). The CalPERS actuary uses a smoothing technique to determine Actuarial Value that is calculated based on certain policies. As described below, these policies changed significantly in 2012 and 2005, affecting the Actuarial Value calculation beginning in Fiscal Year 2007.

On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial valuations used to determine employer contribution rates. The inflation assumption was changed from 3% to 2.75% effective July 1, 2012. The change impacted the inflation component of the annual investment return assumption and the long term payroll growth assumption as follows:

- The annual assumed investment return decreased from 7.75% to 7.5%.
- The long term payroll growth assumption decreased from 3.25% to 3%.
- The inflation component of individual salary scales decreased from 3.25% to 3%.

Although the full impact of the above changes is not yet clear, CalPERS has estimated that they could result in net increases in future contribution levels of approximately 1% to 2%.

In April 2005, the CalPERS Board adopted new policies aimed at stabilizing rising employer costs. These policies were used to set employer contribution rates for the City beginning in Fiscal Year 2007. These policies include:

- Spreading CalPERS market value asset gains and losses over 15 years rather than three years.
- Widening the "corridor" limits for establishing the actuarial value of assets from 90% to 110% of market value to 80% to 120% of market value (except for the 3-year phase-in of investment losses from Fiscal Year 2009, as described below).

- Establishing a rolling 30-year amortization on all remaining net unamortized gains or losses, instead of amortizing 10% of the net unamortized gain or loss each year pursuant to prior policy. Such an amortization schedule results in approximately 6% of unamortized gains and losses each year. Due to the excess of accrued liability over actuarial value of plan assets, the amortization payment of the total unfunded liability may be higher than the payment calculated over a 30-year amortization period.
- Requiring a minimum employer contribution rate equal to the employer normal costs minus a 30-year amortization of surplus (but not less than 0%).

Pursuant to the April 2005 policy change, multiple amortization bases (including those for benefit improvement or changes in actuarial methods or assumptions, which are typically less than 30 years) were combined into a single base (the gain and loss bases) and amortized over a rolling 30-year period to effect a "fresh start" as of June 30, 2004. The April 2005 policy did not affect other existing amortization bases for benefit improvements, assumptions changes and method changes.

Due to significant market investment losses of approximately 24% in the CalPERS trust fund for Fiscal Year 2009, CalPERS implemented a 3-year phase-in of the Fiscal Year 2009 investment loss. This phased in approach will be achieved by temporarily relaxing the constraints on the smoothed value of assets around the actual market value. The corridor will be widened and then contracted as follows:

- Increase the corridor limits from 80% to 120% of market value to 60% to 140% of market value to determine the actuarial value of assets for the June 30, 2009 valuation, which impacted the Fiscal Year 2012 contribution rate.
- Reduce the corridor limits from 60% to 140% of market value to 70% to 130% of market value to determine the actuarial value of assets for the June 30, 2010 valuation, which impacts the Fiscal Year 2013 contribution rate.
- Return to the 80% to 120% of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter, which impacts contribution rates for Fiscal Year 2014 and beyond.
- Asset losses outside of the 80% to 120% corridor described above will be amortized pursuant to a fixed 30-year amortization schedule.

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

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

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

The following table summarizes the City's annual required contributions for its Safety Plan for Fiscal Years 2008 through 2012:

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>City-Funded Employee Contribution</i>	<i>Employee Contribution</i>	<i>Annual Pension Cost</i>	<i>Percentage of Annual Pension Cost Contributed</i>
2008	\$6,643,726	\$1,986,668	\$46,917	\$6,645,597	99.97%
2009	6,553,637	1,923,660	20,013	6,553,639	100.00
2010	6,445,287	1,724,738	202,680	6,448,527	99.95
2011	6,229,965	1,209,538	646,850	6,302,280	98.85
2012	6,850,763	1,163,902	651,350	6,850,763	100.00

The following table summarizes the City's annual required contributions for its Miscellaneous Plan for Fiscal Years 2008 through 2012:

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>City-Funded Employee Contribution</i>	<i>Employee Contribution</i>	<i>Annual Pension Cost</i>	<i>Percentage of Annual Pension Cost Contributed</i>
2008	\$7,229,921	\$2,584,657	\$372,784	\$7,228,241	100.02%
2009	7,046,518	2,550,227	370,619	7,045,855	100.01
2010	6,182,996	2,307,745	339,802	6,181,753	100.02
2011	6,265,276	2,170,405	322,381	6,264,788	100.01
2012	6,821,337	309,255	2,091,763	6,821,337	100.00

The following table sets forth the schedule of funding for the City's Safety Plan. The employer contribution rate for Fiscal Year 2013 is 33.701% of annual covered payroll.

<i>Valuation Date</i>	<i>Entry Age Normal Accrued Liability</i>	<i>Actuarial Value of Assets</i>	<i>Unfunded Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Funded Ratio⁽¹⁾</i>	<i>Annual Covered Payroll</i>
06/30/07	\$212,421,505	\$171,850,308	\$40,571,197	\$199,896,837	94.1%	\$21,950,579
06/30/08	229,203,520	186,315,077	42,888,443	190,503,105	83.1	22,568,495
06/30/09	242,874,783	196,476,776	46,398,007	143,876,356	59.2	21,466,012
06/30/10	252,291,718	207,089,159	45,201,859	162,984,448	64.6	21,499,550
06/30/11	264,843,120	219,102,277	45,580,843	195,816,048	73.9	20,389,124

⁽¹⁾ Based on the market value of assets.

Source: CalPERS Actuarial Report Dated October 2012.

The following table sets forth the schedule of funding for the City's Miscellaneous Plan. The employer contribution rate for Fiscal Year 2013 is 23.827% of annual covered payroll.

<i>Valuation Date</i>	<i>Entry Age Normal Accrued Liability</i>	<i>Actuarial Value of Assets</i>	<i>Unfunded Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Funded Ratio⁽¹⁾</i>	<i>Annual Covered Payroll</i>
06/30/07	\$215,442,908	\$168,559,289	\$46,883,619	\$194,329,503	90.2%	\$38,261,322
06/30/08	239,649,475	186,898,291	52,751,184	189,323,085	79.0	37,557,576
06/30/09	263,284,777	199,668,046	63,616,731	145,596,482	55.3	36,734,986
06/30/10	273,248,044	211,856,211	61,391,833	166,134,811	60.8	33,837,511
06/30/11	289,371,286	224,366,287	65,004,799	199,803,578	69.0	32,582,511

⁽¹⁾ Based on the market value of assets.

Source: CalPERS Actuarial Report Dated October 2012.

CalPERS reported significant investment losses in 2009, which accounts for a portion of the increase in the City's unfunded actuarial liability from June 30, 2008 to June 30, 2009. In addition, the increase in the City's unfunded actuarial liability is attributable to CalPERS studies performed in Fiscal Year 2009 and the adjustment of assumptions made by CalPERS valuations for age at retirement, years of service, mortality rates, and certain other assumptions. CalPERS earnings reports for Fiscal Years 2010, 2011 and 2012 show an investment gain in excess of 13.0%, 21.7% and 1%, respectively. Future earnings performance and adjustments of assumptions may increase or decrease future contribution rates for plan participants, including the City.

For additional information relating to the City's CalPERS Plan, see Note 13 to the City's financial statements set forth in Appendix B.

No Other Post-Employment Benefits

The City does not currently provide other post-employment benefits to its employees.

California State Pension Reform Legislation

On September 12, 2012, the Governor signed AB 340, a comprehensive pension reform package affecting state and local government employees. AB 340 implements lower defined-benefit formulas with higher retirement ages for new employees hired on or after January 1, 2013, and includes provisions to increase current employee contributions. Though AB 340 covers most public employees in state government, cities, counties, special districts, school district, and community colleges, the following discussion relates only to AB 340's impact on City employee retirement.

Key changes to retirement plans affecting the City include:

- New defined-benefit formulas that increase retirement ages for new public employees hired on or after January 1, 2013;
- For new employees, a cap on pensionable income of \$110,100 or \$132,120 (for employees not in social security). Annual increases on the cap would be limited to the Consumer Price Index for All Urban Consumers.
- A standard that employees pay at least 50% of normal costs.
- Establishes increases for current City civil service and related excluded employees who are not contributing at least half of normal costs.

Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time").

If AB 340 is implemented fully, CalPERS estimates savings for local agency plans of approximately \$1.653 billion to \$2.355 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. Savings specific to the City have not been quantified.

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

City Investment Policy

The City invests its funds in accordance with the City's Investment Policy, most recently amended in June 2012. In accordance with Section 53600 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City's Investment Policy sets forth the policies and procedures applicable to the investment of City funds and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and market risks. Eligible investments are generally limited to the Local Agency Investment Fund which is operated by the California State Treasurer, the San Diego County Investment Pool for local agencies, U.S. Treasury Bills, Notes and Bonds, obligations issued by United States Government agencies, FDIC-insured or negotiable certificates of deposit, repurchase agreements, banker's acceptances and commercial paper rated A1/P1, as applicable, or better, and money market funds rated in the highest category by Moody's Investor's Service, Inc. ("Moody's") or Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") or administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's and S&P. Funds are invested in the following order of priority:

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

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

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Series 2013A Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Series 2013A Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

General Considerations – Security for the Series 2013A Bonds

The Series 2013A Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City, the State, or any political subdivision thereof, is pledged to the payment of the Series 2013A Bonds. The Authority has no taxing power.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or

restriction, and does 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 or the State has levied or pledged any form of taxation.

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 to pay the Base Rental Payments and Additional Rental Payments from any source of legally available funds, and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments, subject to abatement. The City is currently liable and may become liable on other obligations payable from general revenues. See the caption "CITY FINANCIAL INFORMATION—Indebtedness—General Obligation Debt."

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease Agreement. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. However, the City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the State Constitution. See the caption "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII B of the State Constitution."

Abatements

In the event of substantial interference with the City's right to use and occupy any portion of the Property by reason of damage to or destruction or condemnation of the Property, or any defects in title to the Property, Base Rental Payments will be subject to abatement. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Abatement." In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period in which funds are available from the funds and accounts established under the Indenture, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Property or redemption of the Series 2013A Bonds, there could be insufficient funds to make payments to Owners in full.

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, the value of the Property could be substantially higher or lower than its value at the time of the issuance of the Series 2013A Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2013A Bonds.

If damage, destruction, title defect or eminent domain proceedings with respect to the Property results in abatement of the Base Rental Payments related to such Property and if such abated Base Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain proceeds, if any, are insufficient to make all payments of principal and interest with respect to the Series 2013A Bonds during the period that the Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreement and the Indenture, no remedy is available to the Series 2013A Bond Owners for nonpayment under such circumstances.

No Reserve Fund

Neither the City nor the Authority has established a reserve fund in connection with the issuance of the Series 2013A Bonds.

Natural Disasters

The occurrence of any natural disaster in the City, including, without limitation, fire, earthquake or flood, could have an adverse material impact on the economy within the City, its General Fund and the revenues available for the payment of the Base Rental Payments. A safety report for parts of the City's municipal water system states that there are four known earthquake fault zones located approximately 10 miles to 60 miles from portions of the City. The City does not maintain earthquake insurance for the Property.

Earthquakes are considered a threat to the City due to the highly active seismic region and the proximity of fault zones, which could influence the entire southern coastal portion of the State. However, no major earthquake has caused substantial damage to the City.

An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction and other threats to public health, safety and welfare. The potential direct and indirect consequences of a major earthquake could easily exceed the resources of the City and would require a high level of self-help, coordination and cooperation.

The occurrence of natural disasters in the City could result in substantial damage to the City which, in turn, could substantially reduce General Fund revenues and affect the ability of the City to make the Base Rental Payments. Reduced ability to make the Base Rental Payments could affect the payment of the principal of and interest on the Series 2013A Bonds. The City maintains liability insurance and property casualty insurance (for losses other than from seismic events) for the Property. See the caption "THE CITY—Risk Management." However, there can be no assurance that specific losses will be covered by insurance or, if covered, that claims will be paid in full by the applicable insurers.

Hazardous Substances

An additional environmental condition that may result in the reduction in the assessed value of property, and therefore property tax revenue available to make Base Rental Payments, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the City. 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 State laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner or operator may be required 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 any of the property within the City be affected by a hazardous substance, could be to reduce the marketability and value of such property by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The City has not independently verified, but is not aware of, the presence of any hazardous substances on the Property. Hazardous substance liabilities may arise in the future with respect to any of the property in the City resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise from the method of handling such substance.

These possibilities could significantly affect the value of a parcel and could result in substantial delays in completing planned development on parcels that are currently undeveloped.

Other Financial Matters

Due to weakness in the economy of the State and the United States, it is possible that the general revenues of the City will decline. Such financial matters may have a detrimental impact on the City's General Fund, and, accordingly, may reduce the City's ability to make Base Rental Payments. See the caption "CITY FINANCIAL INFORMATION."

In addition, City expenses could also rise as a result of unforeseen events, including but not limited to a determination that the Successor Agency's payment obligation under the Reimbursement Agreement relating to the 2007 LRBs is not an enforceable obligation. Such a determination could require the City to make payments under the 2007 LRBs from General Fund moneys. See the caption "CITY FINANCIAL INFORMATION—Indebtedness—General Obligation Debt—2007 LRBs."

Substitution, Addition and Removal of Property; Additional Bonds

The Authority and the City may amend the Lease Agreement: (a) to substitute alternate real property for any portion of the Property; (b) to add additional real property to the Property; or (c) to release a portion of the Property 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 Property for which the substitution or release has been effected will be released from the leasehold encumbrance of the Lease Agreement. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Substitution, Addition and Removal of Property." Moreover, the Authority may issue Additional Bonds secured by Base Rental Payments which are increased from current levels.

Although the Lease Agreement requires, among other things, that the Property, as constituted after such substitution or release, have an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any Rental Period, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of substitution or release. Thus, a portion of the Property could be replaced with less valuable real property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Series 2013A Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution or release. See Appendix A under the caption "LEASE AGREEMENT—NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE—Substitution or Release of the Property."

The Indenture requires, among other things, that upon the issuance of Additional Bonds, the Ground Lease and the Lease Agreement will be amended, to the extent necessary, so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds; provided, however, that no such amendment will be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period is in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith.

Limited Recourse on Default; No Acceleration of Base Rental

Failure by the City to make Base Rental Payments or other payments required to be made under the Lease Agreement, or failure to observe and perform any other terms, covenants or conditions contained in the Lease Agreement or in the Indenture for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Authority or the Trustee, constitute events of default under the Lease Agreement and permit the Trustee or the Authority to pursue any and all remedies available. In the

event of a default, notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Base Rental Payments or otherwise declare any Base Rental Payments not then in default to be immediately due and payable, nor do the Authority or the Trustee have any right to re-enter or re-let the Property except as described in the Lease Agreement.

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. If the City defaults on its obligation to make Base Rental Payments with respect to the Property, the Trustee, as assignee of the Authority, may retain the Lease Agreement and hold the City liable for all Base Rental Payments thereunder on an annual basis and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the City.

Alternatively, the Authority or the Trustee may terminate the Lease Agreement, retake possession of the Property and proceed against the City to recover damages pursuant to the Lease Agreement. Due to the specialized nature of the Property or any property substituted therefor pursuant to the Lease Agreement, and the restrictions on its use, no assurance can be given that the Trustee will be able to re-let the Property so as to provide rental income sufficient to make all payments of principal of, interest and premium, if any, on the Series 2013A Bonds when due, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Series 2013A Bonds. Any suit for money damages would be subject to 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. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS" and Appendix A under the caption "LEASE AGREEMENT—DEFAULTS AND REMEDIES."

Possible Insufficiency of Insurance Proceeds

The Lease Agreement obligates the City to keep in force various forms of insurance, subject to deductibles, for repair or replacement of the Property in the event of damage, destruction or title defects, subject to certain exceptions. The Authority and the City make no representation as to the ability of any insurer to fulfill its obligations under any insurance policy obtained pursuant to the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2013A Bonds when due. In addition, certain risks, such as earthquakes and floods, are not required to be covered under the Lease Agreement, and therefore, are not carried by the City. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS—Insurance" and "THE CITY—Risk Management."

Limitations on Remedies

The rights of the Owners of the Series 2013A 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. Furthermore, the remedies available to the Owners of the Series 2013A Bonds upon the occurrence of an event of default under the Indenture or the Lease Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Additionally, enforceability of the rights and remedies of the Owners of the Series 2013A Bonds, and the obligations incurred by the City, may become subject to the provisions of Title 11 of the United States Code (the "Bankruptcy Code") and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or later in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against cities in the State. Bankruptcy proceedings, or the exercise of powers by the

federal or State government, if initiated, could subject the Owners of the Series 2013A Bonds 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. Under Chapter 9 of the Bankruptcy Code, which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Series 2013A Bonds, the Trustee and the Authority could be prohibited from taking any steps to enforce their rights under the Lease Agreement, and from taking any steps to collect amounts due from the City under the Lease Agreement.

The opinion to be delivered by Bond Counsel concurrently with the execution and delivery of the Series 2013A Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Series 2013A Bonds will be similarly qualified. See Appendix C—“PROPOSED FORM OF OPINION OF BOND COUNSEL.” In the event that the City fails to comply with its covenants under the Lease Agreement or fails to pay Base Rental Payments, there can be no assurance of the availability of remedies adequate to protect the interest of the Owners of the Series 2013A Bonds.

Loss of Tax Exemption

As discussed under the heading “TAX MATTERS,” the interest on the Series 2013A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Series 2013A Bonds as a result of acts or omissions of the Authority or the City in violation of the covenants in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Series 2013A Bonds would not be subject to a special redemption and would remain Outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

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 Series 2013A Bonds with respect to: (a) the payment when due of the Base Rental Payments by the City; (b) 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 (c) the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2013A Bonds or, if a secondary market exists, that the Series 2013A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

STATE OF CALIFORNIA BUDGET INFORMATION

State Budget

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, <http://www.dof.ca.gov>, under the heading “California Budget.” An impartial analysis of the budget is posted by the Legislative Analyst’s Office 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 cities 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, and the City can take no responsibility for the continued accuracy of these Internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2013

According to the State Constitution, the Governor of the State is required to propose a budget to the State Legislature by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the State Legislature by no later than June 15, although this deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Prior to Fiscal Year 2011, the State budget had to be adopted by a two-thirds vote of each house of the State Legislature. However, in November 2010, the voters of the State passed Proposition 25, which reduced the vote required to adopt a budget to a majority vote of each house and which provided that there would be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the State Legislature for the period during which the budget was presented late to the Governor.

On June 27, 2012, the State's budget for Fiscal Year 2013 (the "2012 Budget Act") was enacted. The 2012 Budget Act projects State General Fund revenues and transfers for Fiscal Year 2013 at \$95.9 billion, an increase of \$9.1 billion compared to Fiscal Year 2012. General Fund expenditures for Fiscal Year 2013 are projected at \$91.3 billion, an increase of \$4.3 billion compared to Fiscal Year 2012.

The 2012 Budget Act closes a \$15.7 billion budget gap and rebuilds a nearly \$1 billion reserve. In closing the \$15.7 billion gap, the 2012 Budget Act relies on deep spending reductions combined with temporary taxes and other actions.

The 2012 Budget Act includes The Schools and Local Public Safety Protection Act (the "Governor's Tax Initiative"), which was approved by a majority of voters at the November 6, 2012 general election. The Governor's Tax Initiative temporarily increases the personal income tax on the State's wealthiest taxpayers for seven years, increases the sales tax by one-quarter percent for four years, and guarantees most of these new revenues to schools. The Governor estimates that the Governor's Tax Initiative will generate an estimated \$8.5 billion through Fiscal Year 2013 and will enable the State to meet the minimum funding guarantee for school districts, community college districts and other state agencies that provide direct elementary and secondary instructional programs for kindergarten through grade 14 (K-14) under Proposition 98, which was passed in 1988, and to increase funding for schools and community colleges by an additional \$2.9 billion. The Governor's Tax Initiative will provide a net benefit to the State General Fund of \$5.6 billion. In addition, the measure constitutionally guarantees certain funds for local public safety.

Potential Impact of State Financial Condition on the City

There can be no assurance that, as a result of the current 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 financial difficulties. 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 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.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

There are a number of provisions in the State Constitution that limit the ability of the City to raise and expend tax revenues.

Article XIII A of the State Constitution

On June 6, 1978, State voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the State Constitution. The amendment, which added Article XIII A to the State Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value', or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value, except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to December 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after December 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition (55% in the case of certain school facilities). Property taxes subject to Proposition 13 are a significant source of revenues to the City's General Fund. See the caption "CITY FINANCIAL INFORMATION."

Legislation enacted by the State Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) is allocated on the basis of "situation" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, and to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in certain other limited circumstances.

Article XIII B of the State Constitution

At the Statewide special election on November 6, 1979, the voters approved an initiative entitled "Limitation on Government Appropriations," which added Article XIII B to the State Constitution. Under Article XIII B, State and local government entities have an annual "appropriations limit" which limits the ability to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax

revenues and certain State subventions together called "proceeds of taxes" and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations limit," including debt service on indebtedness existing or authorized as of October 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIII B, if those entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The City's appropriations have never exceeded the limitation on appropriations under Article XIII B of the State Constitution.

Proposition 62

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986 general election which: (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity; (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction; (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed; (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A; (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were upheld by the State Supreme Court in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal.4th 220; 45 Cal.Rptr.2d 207 (1995).

Proposition 62 applies to the imposition of any taxes or the effecting of any tax increases after its enactment in 1986, but the requirements of Proposition 62 are largely subsumed by the requirements of Proposition 218 for the imposition of any taxes or the effecting of any tax increases after November 5, 1996. See the caption "—Proposition 218" below.

Proposition 218

On November 5, 1996, State voters approved Proposition 218, an initiative measure entitled the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments are deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge may be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (a) the *ad valorem* property tax imposed pursuant to Articles XIII and XIII A of the State Constitution; (b) any special tax receiving a two-thirds vote pursuant to the State Constitution; and (c) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than

fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such new provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairments of contracts. Legislation implementing Proposition 218 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the City will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the City's General Fund.

Although a portion of the City's General Fund revenues are derived from general taxes purported to be governed by Proposition 218, all of such taxes were imposed in accordance with the requirements of Proposition 218. 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 which support the City's General Fund.

Unitary Property

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization (the "SBE") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City) according to statutory formula generally based on the distribution of taxes in the prior year.

Proposition 22

On November 2, 2010, voters in the State approved Proposition 22, which eliminates the State's ability to borrow or shift local revenues and certain State revenues that fund transportation programs. It restricts the State's authority over a broad range of tax revenues, including property taxes allocated to cities (including the City), counties and special districts, the VLF, State excise taxes on gasoline and diesel fuel, the State sales tax on diesel fuel, and the former State sales tax on gasoline. It also makes a number of significant other changes, including restricting the State's ability to use motor vehicle fuel tax revenues to pay debt service on voter-approved transportation bonds.

Proposition 1A

As part of Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the State Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2, 2004 general election. Proposition 1A amended the State Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with Fiscal Year 2009, the State may borrow up to 8% of local property tax revenues, but only if the Governor proclaims that such action is necessary due to a

severe State fiscal hardship and two-thirds of both houses of the State Legislature approve the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than two Fiscal Years within a period of ten Fiscal Years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the Statewide local sales tax.

The Fiscal Year 2010 State budget included a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending. Such diverted revenues must be repaid, with interest, no later than June 30, 2013. The amount of the Proposition 1A diversion from the City was \$2,314,710. The City participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and, as a result, received the shifted funds in the amount of \$2,314,710, without interest, in two installments in 2010 from the California Statewide Communities Development Authority. See the caption "CITY FINANCIAL INFORMATION—Property Taxes."

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 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

Articles XIII A and XIII B and Propositions 62, 218, 1A, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the City's current revenues or its ability to raise and expend revenues.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on Series 2013A Bonds is exempt from State personal income tax. Bond Counsel

notes that, with respect to corporations, interest on the Series 2013A Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Series 2013A Bond (the first price at which a substantial amount of the Series 2013A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2013A Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the Owner of the Series 2013A Bond before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Owner of a Series 2013A Bond will increase the Owner's basis in the Series 2013A Bond. In the opinion of Bond Counsel original issue discount that accrues to the Owner of a Series 2013A Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

The amount by which a Series 2013A Bond Owner's original basis for determining loss on sale or exchange in the applicable Series 2013A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Series 2013A Bond Owner's basis in the applicable Series 2013A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2013A Bond Owner realizing a taxable gain when a Series 2013A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2013A Bond to the Owner. Purchasers of the Series 2013A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Base Rental Payment constituting interest (and original issue discount) on the Series 2013A Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to issuance of the Series 2013A Bonds to assure that the portion of each Base Rental Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2013A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2013A Bonds. The City and the Authority have covenanted to comply with all such requirements applicable to each, respectively.

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 Series 2013A Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2013A Bonds might be affected as a result of such an audit of the Series 2013A Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series 2013A Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Series 2013A Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2013A BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE SERIES 2013A BONDS OR THE MARKET VALUE OF THE SERIES 2013A BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE SERIES

2013A BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE SERIES 2013A BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2013A BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE SERIES 2013A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES 2013A BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Series 2013A Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture, the Lease Agreement and the Tax Certificate relating to the Series 2013A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Series 2013A Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that the interest (and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes provided that the City and the Authority continue to comply with certain requirements of the Code, the ownership of the Series 2013A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Series 2013A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Series 2013A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Series 2013A Bonds.

The form of Bond Counsel's proposed opinion with respect to the Series 2013A Bonds is attached hereto in Appendix C.

CERTAIN LEGAL MATTERS

The validity of the Series 2013A Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel. Stradling Yocca Carlson & Rauth, a Professional Corporation, is also acting as Disclosure Counsel for the City. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix C. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Bond Counsel and Disclosure Counsel will receive compensation from the City contingent upon the sale and delivery of the Series 2013A Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Series 2013A Bonds. Certain legal matters will be passed upon for the City and the Authority by Jeffrey Epp, Esquire, City Attorney and General Counsel to the Authority, for the Underwriter by Best Best & Krieger LLP and for the Trustee by its counsel. Counsel to the Underwriter will receive compensation contingent upon the issuance of the Series 2013A Bonds.

ABSENCE OF LITIGATION

To the best knowledge of the City and the Authority, there is no action, suit or proceeding pending or threatened either restraining or enjoining the execution or delivery of the Series 2013A 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. There are a number of

lawsuits and claims from time to time pending against the City. In the opinion of the City Attorney, and taking into account likely insurance coverage and litigation reserves, there are no lawsuits or claims pending against the City which will materially affect the City's finances so as to impair its ability to pay Base Rental Payments when due.

UNDERWRITING

The Series 2013A Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter"). The Underwriter will purchase the Series 2013A Bonds from the Authority at an aggregate purchase price of \$_____, representing the principal amount of the Series 2013A Bonds, plus/less \$_____ of net original issue premium/discount and less \$_____ of Underwriter's discount.

The Series 2013A Bonds are offered for sale at the initial prices stated on the inside cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Series 2013A Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

RATING

S&P has assigned the Series 2013A Bonds the rating of "___". There is no assurance that the credit rating given to the Series 2013A Bonds will be maintained for any period of time or that a rating may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2013A Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate of the City, dated as of the date of issuance of the Series 2013A Bonds (the "Disclosure Certificate"), the City has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District by 270 days following the end of the City Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for the Fiscal Year ended June 30, 2013, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, maintained on the Internet at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events are set forth in Appendix D. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission ("Rule 15c2-12").

The requirement that the City file its audited financial statements as a part of the Annual Report has been included in the Disclosure Certificate solely to satisfy the provisions of Rule 15c2-12. The inclusion of such information does not mean that the Series 2013A Bonds are secured by any resources or property of the City or any entity other than Base Rental Payments. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS" and "RISK FACTORS—General Considerations – Security for the Series 2013A Bonds." The City reports that it has not in the past five years failed to comply with any previous continuing disclosure undertaking in any material respect.

FINANCIAL STATEMENTS OF THE CITY

Included as Appendix B are the audited financial statements of the City as of and for the year ended June 30, 2012, together with the report of the Auditor thereon dated January [___], 2013. Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not

undertaken to update the audited financial statements of the City or its report, or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated January [], 2013.

MISCELLANEOUS

Summaries of certain documents and reports do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture, the Lease Agreement, the Ground Lease and other documents are available, upon request, and upon payment to the City of a charge for copying, mailing and handling, from the Finance Director at City of Escondido, 201 North Broadway, Escondido, California 92025-2798.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or Owners of any of the Series 2013A Bonds.

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

ESCONDIDO JOINT POWERS FINANCING AUTHORITY

By: _____
Auditor/Treasurer

CITY OF ESCONDIDO

By: _____
City Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Ground Lease, the Lease Agreement and the Indenture which are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the respective document for a full and complete statement of the provisions thereof.

[TO COME]

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2012

APPENDIX C

PROPOSED FORM OF BOND COUNSEL OPINION

Upon issuance of the Series 2013A Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Date of Delivery]

Escondido Joint Powers Financing Authority
c/o City of Escondido
201 North Broadway
Escondido, California 92025-2798

Re: \$_____ Escondido Joint Powers Financing Authority
Lease Revenue Refunding Bonds, Series 2013A

Members of the Board of Directors:

We have acted as Bond Counsel to the Escondido Joint Powers Financing Authority (the "Authority") in connection with the issuance by the Authority of its Lease Revenue Refunding Bonds, Series 2013A (the "Series 2013A Bonds") in the aggregate principal amount of \$_____. In such connection, we have reviewed: (i) the Indenture, dated as of February 1, 2013 (the "Indenture"), by and among The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the Authority and the City of Escondido (the "City"); (ii) the Lease Agreement, dated as of February 1, 2013 (the "Lease Agreement"), by and between the City and the Authority; (iii) the Ground Lease, dated as of February 1, 2013 (the "Ground Lease"), by and between the City and the Authority; (iv) the Assignment Agreement, dated as of February 1, 2013 (the "Assignment Agreement"), by and between the Authority and the Trustee; (v) the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"); and (vi) opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City and the Trustee and others and such other documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein have the meanings ascribed thereto in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefor. The obligation of the City to make Base Rental Payments under the Lease Agreement does not constitute a debt of the City, the State of California (the "State") or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State or any political subdivision thereof.

2. The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest

(and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Series 2013A Bonds is exempt from personal income taxes imposed in the State.

5. The difference between the issue price of a Series 2013A Bond (the first price at which a substantial amount of the Series 2013A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series 2013A Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Series 2013A Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Series 2013A Bond Owner will increase the Series 2013A Bond Owner's basis in the applicable Series 2013A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the Series 2013A Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

6. The amount by which a Series 2013A Bond Owner's original basis for determining loss on sale or exchange in a Series 2013A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Series bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Series 2013A Bond Owner's basis in the applicable Series 2013A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Series 2013A Bond Owner realizing a taxable gain when a Series 2013A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Series 2013A Bond to the Owner. Purchasers of the Series 2013A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed herein as to the exclusion from gross income of interest on the Series 2013A Bonds are based upon certain representations of fact and certifications made by the City and the Authority and are subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2013A Bonds to assure that such interest (and original issue discount) on the Series 2013A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Series 2013A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2013A Bonds. The City and the Authority have covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Series 2013A Bonds terminates on the date of their issuance. The Indenture and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Series 2013A Bonds for federal income tax purposes with respect to any Series 2013A Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than as expressly stated herein, we express no other opinion regarding tax consequences with respect to the Series 2013A Bonds.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State and our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture, the Lease Agreement and the Series 2013A Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2013A Bonds and expressly disclaim any duty to advise the Owners of the Series 2013A Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon issuance of the Series 2013A Bonds, the City proposes to enter into a Continuing Disclosure Agreement in substantially the following form:

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Escondido (the "City") in connection with the issuance by the Escondido Joint Powers Financing Authority (the "Authority") of its \$_____ Lease Revenue Refunding Bonds, Series 2013A (the "Bonds"). The Bonds are being issued pursuant to an Indenture, dated as of February 1, 2013 (the "Indenture"), by and among The Bank of New York Mellon Trust Company, N.A., as trustee, the City and the Authority. The City covenants and agrees as follows:

1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report. The term "Annual Report" means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

Beneficial Owner. The term "Beneficial Owner" means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

EMMA. The term "EMMA" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>.

Fiscal Year. The term "Fiscal Year" means the one-year period ending on the last day of June of each year.

Holder. The term "Holder" means a registered owner of the Bonds.

Listed Events. The term "Listed Events" means any of the events listed in Sections 5(a) and (b) of this Disclosure Certificate.

Official Statement. The term "Official Statement" means the Official Statement dated February __, 2013 relating to the Bonds.

Participating Underwriter. The term "Participating Underwriter" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Rule. The term "Rule" means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

3. Provision of Annual Reports.

(a) The City shall provide not later than 270 days following the end of its Fiscal Year (commencing with Fiscal Year 2012) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate.

(b) If the City is unable to provide to EMMA an Annual Report by the date required in subsection (a), the City shall send to EMMA a notice in the manner prescribed by the Municipal Securities Rulemaking Board.

4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the audited financial statements of the City and the Authority for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

The audited financial statements described above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to EMMA; provided, that if any document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board; and provided further, that the City shall clearly identify each such document so included by reference.

5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
2. modifications to the rights of Bond holders;
3. optional, unscheduled or contingent Bond redemptions;
4. release, substitution or sale of property securing repayment of the Bonds;
5. non-payment related defaults;
6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and
7. appointment of a successor or additional trustee or the change of the name of a trustee.

(c) If the City determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the City shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) Business Days after the event.

6. Customarily Prepared and Public Information. Upon request, the City shall provide to any person financial information and operating data regarding the City which is customarily prepared by the City and is publicly available.

7. Termination of Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure

Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holders or Beneficial Owners of at least 50% aggregate principal amount of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Holder or Beneficial Owner of the Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: March __, 2013

CITY OF ESCONDIDO

By: _____
Its: City Manager

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority, the City and the Underwriter believe to be reliable, but none of the Authority, the City or the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2013A Bonds, payment of principal, premium, if any, accreted value and interest on the Series 2013A Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2013A 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 Series 2013A Bonds. The Series 2013A 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 Series 2013A 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 Series 2013A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013A 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 Series 2013A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013A Bonds, except in the event that use of the book-entry system for the Series 2013A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013A 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 Series 2013A 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 Series 2013A Bonds; DTC's records reflect only the identity of

the Direct Participants to whose accounts such Series 2013A 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 Series 2013A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2013A Bond documents. For example, Beneficial Owners of Series 2013A Bonds may wish to ascertain that the nominee holding the Series 2013A 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 Series 2013A 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 Series 2013A 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 Series 2013A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2013A 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 Series 2013A Bond Owner shall give notice to elect to have its Series 2013A Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Series 2013A Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2013A Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2013A Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2013A Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2013A Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the Series 2013A 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 SERIES 2013A 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 SERIES 2013A BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX F

GENERAL INFORMATION REGARDING THE CITY OF ESCONDIDO

The following information is presented as general background data. The Series 2013A Bonds are payable solely from the Base Rental Payments under the Lease Agreement as described in the Official Statement. The taxing power of the City, the State or any political subdivision thereof is not pledged to the payment of the Base Rental Payments or the Bonds.

Location

The City of Escondido (the "City") is located in a long valley surrounded by coastal mountains about eighteen miles inland and thirty miles north of downtown San Diego.

The City has diversified from its origins as an agricultural center for the surrounding citrus and avocado farms. Today, more than 175 industrial firms are located in the City. In addition, the City serves as a focal point for north San Diego County ("North County") recreation and entertainment. Interstate 15 and Highway 78 bisect the City, making the City easily accessible for regional commerce and recreation.

Population

The City is the largest inland city in North County with an estimated current population of 146,064. Table F-1 sets forth total population for the City, the County of San Diego (the "County") and the State of California (the "State").

Table F-1
City of Escondido, County of San Diego and State of California
Population

<i>January 1</i>	<i>City of Escondido</i>	<i>County of San Diego</i>	<i>State of California</i>
2008	140,785	3,032,689	36,704,375
2009	142,161	3,064,436	36,966,713
2010	144,008	3,091,579	37,223,900
2011	144,998	3,115,810	37,427,946
2012	146,064	3,143,429	37,678,563

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts and E-1 Population Estimates for Cities, Counties and the State, 2011-2012*, Sacramento, California, August 2011.

Employment and Industry

Table F-2 summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2007 through 2011 in the City, the County, the State of California and the United States.

Table F-2
City of Escondido, County of San Diego, State of California and United States
Labor Force, Employment and Unemployment Yearly Average

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment⁽¹⁾</i>	<i>Civilian Unemployment⁽²⁾</i>	<i>Civilian Unemployment Rate⁽³⁾</i>
2007				
Escondido	70,600	67,300	3,400	4.8%
San Diego County	1,517,600	1,448,500	69,100	4.6
California	17,921,000	16,960,700	960,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
Escondido	72,100	67,600	4,500	6.2
San Diego County	1,548,200	1,455,600	92,700	6.0
California	18,203,100	16,890,000	1,313,100	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2009				
Escondido	72,500	65,300	7,200	10.0
San Diego County	1,554,200	1,405,000	149,200	9.6
California	18,208,300	16,144,500	2,063,900	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2010				
Escondido	73,400	65,400	8,000	10.9
San Diego County	1,572,600	1,407,100	165,600	10.5
California	18,316,400	16,051,500	2,264,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2011				
Escondido	73,900	66,200	7,700	10.4
San Diego County	1,583,800	1,426,100	157,700	10.0
California	18,384,900	16,226,600	2,158,300	11.7
United States	153,617,000	139,869,000	13,747,000	8.9

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: California Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

Table F-3 sets forth the industry employment and the labor force estimates for the years 2007 through 2011 for the San Diego-Carlsbad-San Marcos MSA. Annual industry employment information is not compiled by sector for the City.

Table F-3
San Diego-Carlsbad-San Marcos MSA
Industry Employment and Labor Force
Annual Average

<i>TITLE</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
Total Farm	10,900	10,500	9,500	10,500	10,000
Total Nonfarm	1,308,800	1,298,700	1,231,400	1,222,800	1,231,200
Total Private	1,086,500	1,073,600	1,006,900	992,400	1,002,700
Goods Producing	189,800	179,200	156,800	148,600	148,400
Natural Resources & Mining	400	400	400	400	400
Construction	87,000	76,100	61,100	55,300	55,200
Manufacturing	102,500	102,800	95,300	92,900	92,800
Durable Goods	77,300	78,100	73,100	71,000	70,800
Nondurable Goods	25,200	24,700	22,200	21,900	21,900
Service Providing	1,119,000	1,119,500	1,074,600	1,074,200	1,082,800
Private Service Producing	896,600	894,400	850,100	843,800	854,400
Trade, Transportation & Utilities	222,300	215,900	199,600	197,300	199,000
Wholesale Trade	45,500	44,900	40,600	40,100	40,700
Retail Trade	148,100	142,000	131,600	130,700	132,200
Transportation, Warehousing & Utilities	28,800	29,000	27,400	26,500	26,100
Information	31,300	31,400	28,200	25,100	24,000
Financial Activities	80,300	75,200	69,800	67,200	66,800
Professional & Business Services	223,200	222,300	206,800	207,700	211,500
Educational & Health Services	129,500	137,300	144,300	145,500	149,100
Leisure & Hospitality	161,800	164,000	154,800	154,800	156,900
Other Services	48,300	48,400	46,800	46,200	47,100
Government	222,400	225,100	224,500	230,400	228,400
Total, All Industries	1,319,700	1,309,300	1,240,900	1,233,300	1,241,200

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, San Diego-Carlsbad-San Marcos MSA *Industry Employment & Labor Force - by Annual Average, March 2011 Benchmark*.

Major Employers

Table F-4 sets forth the largest employers in the City as of June 30, 2011.

Table F-4
City of Escondido
Largest Employers

<i>Employer</i>	<i>Number of Employees</i>
Palomar Medical Center	2,689
Escondido Union School District	1,981
City of Escondido	1,091
San Diego Safari Park	953
Escondido Union High School District	766
Nordstrom Inc.	720
Welk Group Inc.	465
Vons Grocery Stores	391
Palomar Community College District	340
Home Depot	333

Source: City of Escondido Finance Department.

Commercial Activity

Trade outlet and retail sales activity are summarized in Tables F-5 and F-6 based on reports of the State Board of Equalization.

Table F-5
City of Escondido
Total Taxable Transactions and Number of Sales Permits
2007 through 2011⁽¹⁾

<i>Calendar Year</i>	<i>Retail Sales⁽²⁾</i>	<i>Retail Sales Permits</i>	<i>Total Taxable Transactions⁽²⁾</i>	<i>Issued Sales Permits</i>
2007	2,195,572	1,783	2,696,218	4,091
2008	1,924,432	1,898	2,395,108	4,074
2009	1,611,325	2,312	2,040,596	3,576
2010	1,782,265	2,414	2,132,167	3,706
2011 ⁽¹⁾	1,408,957	2,549	1,722,325	3,830

⁽¹⁾ Through 3rd Quarter 2011.

⁽²⁾ Dollar amounts are in thousands.

Source: California State Board of Equalization.

Table F-6
City of Escondido
Taxable Retail Sales
2007 through 2011⁽¹⁾
(\$000)

<i>Type of Business</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011⁽¹⁾</i>
Apparel Stores	\$ 106,999	\$ 130,736	\$ 160,564	\$ 170,763	\$ 125,911
General Merchandise Stores	268,491	212,857	133,896	134,120	90,593
Food Stores	126,489	116,684	120,048	120,970	93,276
Eating/Drinking Places	174,338	170,032	162,468	169,879	133,479
Home Furnishings/Appliances	32,261	20,507	30,602	33,286	32,774
Building Materials/Farm Implements	243,426	183,154	157,370	167,646	128,045
Auto Dealers	753,082	606,190	481,614	529,178	465,942
Service Stations	250,484	282,099	218,496	254,285	234,209
Other Retail Stores	<u>240,002</u>	<u>202,172</u>	<u>146,267</u>	<u>148,138</u>	<u>104,730</u>
Retail Stores Totals	2,195,572	1,924,432	1,611,325	1,728,265	1,408,957
All Other Outlets	<u>500,646</u>	<u>470,676</u>	<u>429,271</u>	<u>403,902</u>	<u>313,368</u>
Total All Outlets	<u>\$2,696,218</u>	<u>\$2,395,108</u>	<u>\$2,040,596</u>	<u>\$2,132,167</u>	<u>\$1,722,325</u>

⁽¹⁾ Through 3rd Quarter 2011.

Source: California State Board of Equalization.

Building Activity

Table F-8 summarizes building activity in the City of Escondido from 2007 through 2011.

Table F-8
City of Escondido
Building Permit Valuations
2007 through 2011

	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
<u>Residential</u>					
Single Family	\$ 35,253,451	\$ 33,144,125	\$ 31,276,919	\$ 21,709,519	\$ 8,852,193
Multi-Family	14,028,209	8,715,433	4,625,512	5,166,958	12,919,403
Alteration/Additions	<u>10,419,656</u>	<u>5,194,468</u>	<u>3,743,437</u>	<u>3,032,618</u>	<u>3,585,270</u>
Total	59,701,316	47,054,026	39,645,868	\$29,909,095	25,356,866
<u>Non-Residential</u>					
New Commercial	14,773,541	45,028,783	1,124,405	3,480,411	2,303,428
New Industry	2,789,464	0	535,136	1,362,179	0
Other ⁽¹⁾	22,647,445	9,045,233	3,176,047	1,914,091	2,279,369
	<u>19,858,697</u>	<u>16,859,229</u>	<u>9,991,810</u>	<u>15,334,778</u>	<u>8,984,967</u>
Total	60,069,147	70,933,245	14,827,398	22,091,459	13,567,764
<u>Total All Industry</u>	<u>\$119,770,463</u>	<u>\$117,987,271</u>	<u>\$54,473,266</u>	<u>\$52,000,554</u>	<u>\$38,924,630</u>
<u>Total</u>					
Single Family Units	131	120	114	84	32
Multi-Family Units	<u>105</u>	<u>63</u>	<u>63</u>	<u>55</u>	<u>112</u>
Total	236	183	177	139	144

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and non-residential alterations and additions.

Source: Construction Industry Research Board.

Transportation

Interstate 15 serves the City, extending from San Diego through to Riverside and Las Vegas, Nevada. State Highway 78 runs west to east from the coastline between Oceanside and Carlsbad through the City to Interstate 10 and is one of the main east/west corridors through the County.

The Santa Fe Railroad has a freight service line serving the City, and Amtrak provides passenger service from Oceanside on the San Diego/Los Angeles line. The Sprinter provides commuter rail service from the City to Oceanside.

Two airports serve North County. San Diego International Airport (Lindbergh Field), 35 minutes from the City, provides access to fourteen major national and international commercial airlines and fourteen freight forwarding companies. The smaller McClellan-Palomar Airport, 15 minutes from downtown of the City, offers commercial service to Los Angeles, Las Vegas, Nevada and Phoenix, Arizona. McClellan-Palomar also offers complete private aircraft service.

Education

The City has 16 elementary schools (plus eight private schools), five middle schools, and three public high schools (plus three private schools). In addition, the City has a charter elementary school, middle school and night school.

The largest university in the County is San Diego State University, part of the California State University system. California State University at San Marcos is the closest university to the City. The University of California, San Diego in La Jolla is one of nine campuses of the University of California system. The statewide Community College System has nine colleges in San Diego County.

Private universities in San Diego County include United States International University, the University of San Diego, Point Loma Nazarene University and National University.

Recreation and Culture

The City is a 60 minute drive from Cleveland National Forest and a 30 minute drive from the Pacific Ocean and all of the outdoor activities associated with these areas. Thousands of acres of nearby recreation areas provide opportunities for picnicking, boating, fishing, tennis, softball and swimming. Over 25 golf courses are located within a 20 minute drive of the City.

Spectator sports fans can choose among professional football and baseball at nearby Qualcomm, Petco Park, professional indoor soccer at the San Diego Sports Arena, and thoroughbred horse racing at Del Mar Racetrack. The City's recreation department offers amateur athletes softball, football, tennis and other organized sporting activities at 12 parks and 6 playgrounds.

Concerts, plays, and museums are popular in and around the City. The California Center for the Arts, Escondido, an \$81.0 million cultural center complex including a performing arts theater, a community theater, a museum and a conference center, opened in October 1994. The Patio Playhouse and the Lawrence Welk Theatre also offer dramatic productions. The San Diego Arts Gallery and the La Jolla Museum of Art are two of the many art galleries in the area and the Mingei International Museum offers various art exhibitions.

RESOLUTION NO. EJPFA-2013-01

RESOLUTION OF THE ESCONDIDO JOINT POWERS FINANCING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY BY THE AUTHORITY OF A GROUND LEASE, LEASE AGREEMENT, INDENTURE, ASSIGNMENT AGREEMENT, ESCROW AGREEMENT AND BOND PURCHASE AGREEMENT IN CONNECTION WITH THE ISSUANCE OF ESCONDIDO JOINT POWERS FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2013A, AUTHORIZING THE ISSUANCE OF SUCH BONDS IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$5,500,000, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT IN CONNECTION WITH THE OFFERING AND SALE OF SUCH BONDS AND AUTHORIZING THE EXECUTION OF NECESSARY DOCUMENTS AND CERTIFICATES AND RELATED ACTIONS

WHEREAS, the City of Escondido (the "City") previously financed a portion of the costs of the acquisition, construction and installation of certain capital improvements constituting the Reidy Creek Golf Course, with related flood control detention basin, water well and ancillary facilities and related improvements, facilities and equipment (the "2001 Project"); and

WHEREAS, in order to accomplish such financing, the City determined to provide the funds necessary to finance the acquisition, construction and installation of the Project through the issuance by the Escondido Joint Powers Financing Authority (the "Authority") of its 2001 Lease Revenue Bonds (Reidy Creek Project) (the "2001 Bonds"), payable from certain base rental payments to be made by the City under a lease agreement; and

WHEREAS, the Authority and the City desire to refinance all or a portion of the Project originally financed with the proceeds of the 2001 Bonds; and

WHEREAS, the Authority and the City have determined that it would be in the best interests of the Authority, the City and residents of the City to authorize the preparation, sale

and delivery of the “Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A” (the “Bonds”) for the purpose of refinancing the 2001 Bonds; and

WHEREAS, in order to facilitate the issuance of the Bonds, the City and the Authority desire to enter into a Ground Lease between the City and the Authority (the “Ground Lease”) pursuant to which the City will lease certain real property (which real property shall consist of assets generally described as the Reidy Creek Golf Course and related detention basin, flood control and ancillary improvements) (the “Leased Assets”) to the Authority, and a Lease Agreement between the City and the Authority (the “Lease Agreement”), pursuant to which the City will lease the Leased Assets back from the Authority, and pay certain Base Rental Payments (as defined in the Lease Agreement), which are pledged to the owners of the Bonds by the Authority pursuant to an Indenture by and among The Bank of New York Mellon Trust Company, N.A. (the “Trustee”), the City and the Authority (the “Indenture”); and

WHEREAS, the Authority and the Trustee desire to enter into an Assignment Agreement in order to provide, among other things, that all rights to receive the Base Rental Payments have been assigned without recourse by the Authority to the Trustee; and

WHEREAS, the City and the Authority have determined that debt service savings can be achieved by the prepayment and defeasance of the 2001 Bonds; and

WHEREAS, the City and the Authority have determined that it would be in the best interests of the City and the Authority to provide the funds necessary to refinance all or a portion of the 2001 Project originally financed with the proceeds of the 2001 Bonds through the offering and sale of the Bonds; and

WHEREAS, the defeasance of the 2001 Bonds to be prepaid will be accomplished by means of an Escrow Agreement (the "Escrow Agreement") by and among The Bank of New York Mellon Trust Company, N.A., as escrow agent ("Escrow Agent"), the City and the Authority, the form of which has been presented to this Board of Directors at the meeting at which this Resolution is being adopted; and

WHEREAS, the Bonds will be issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, commencing with Section 6584 of the California Government Code (the "Act"); and

WHEREAS, the City and the Authority desire to provide for the negotiated sale of the Bonds; and

WHEREAS, the City and the Authority have selected Stifel, Nicolaus & Co. Inc., dba Stone & Youngberg, a Division of Stifel Nicolaus, to act as underwriter (the "Underwriter") to purchase the Bonds from the Authority pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement"); and

WHEREAS, a form of the Preliminary Official Statement (the "Preliminary Official Statement") has been prepared and is attached as Exhibit "A" to this Resolution and is incorporated by this reference; and

WHEREAS, the City is a member of the Authority and the 2001 Project is located within the boundaries of the City; and

WHEREAS, the Board of Directors of the Authority (the "Board of Directors") has been presented with the form of each document referred to herein, and the Board of

Directors has examined and approved each document and desires to authorize and direct the execution of such documents and the consummation of such refinancing; and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of such refinancing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Authority is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such refinancing for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, the City Council of the City of Escondido, acting as the Commissioners of the Escondido Joint Powers Financing Authority does hereby resolve, determine and order as follows:

SECTION 1. All of the recitals herein contained are true and correct and the Board of Directors so finds. The Board of Directors has determined and hereby finds that the Authority's assistance in refinancing the 2001 Project by the execution and delivery of the Bonds will result in significant public benefits of the type described in Section 6586 (a) through (d), inclusive, of the Act.

SECTION 2. The forms of the Lease Agreement and the Ground Lease, on file with the Secretary of the Authority, are hereby approved, and the Chair, Vice Chair, Executive Director (which shall be the City Manager of the City), Auditor and Treasurer and Secretary (the "Authorized Officers"), are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Lease Agreement and the Ground Lease, respectively, in substantially said forms, with such changes, insertions

and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the term of the Lease Agreement and the Ground Lease shall terminate no later than September 1, 2030 (provided that such term may be extended as provided therein) and the true interest cost applicable to the interest components of the Base Rental Payments shall not exceed 3.75% per annum.

SECTION 3. The form of Indenture, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Indenture in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, however, that the aggregate amount of the Bonds shall not exceed \$5,500,000, the final maturity date of the Bonds shall be no later than September 1, 2030 and the true interest cost applicable to the Bonds shall not exceed 3.75% per annum and, provided, further, that such changes, insertions and omissions shall be consistent with the terms of the Bonds established at negotiated sale pursuant to the Bond Purchase Agreement.

SECTION 4 The issuance of not to exceed \$5,500,000 aggregate principal amount of the Bonds, in the principal amounts, bearing interest at the rates and maturing on the dates as specified in the Indenture as finally executed, is hereby authorized and approved.

SECTION 5. The form of Assignment Agreement, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized

and directed, for and in the name and on behalf of the Authority, to execute and deliver the Assignment Agreement in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 6. The form of Escrow Agreement, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Escrow Agreement in substantially said form, with such changes, insertions and omissions therein as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof

SECTION 7. The Bond Purchase Agreement, on file with the Secretary of the Authority, is hereby approved, and the Authorized Officers are each hereby authorized and directed, for and in the name of the Authority to execute and deliver the Bond Purchase Agreement in substantially said form, with such changes, insertions and omissions as the Authorized Officer executing the same may require or approve, such approval to be conclusively evidenced by the execution of the Bond Purchase Agreement by such Authorized Officer; provided, however, that such changes, insertions and omissions shall not result in an aggregate underwriter's discount (not including any original issue discount paid by the Underwriter) from the principal amount of the Bonds in excess of six-tenths of one percent (0.6%) of the aggregate principal amount of the Bonds.

SECTION 8. The form of Preliminary Official Statement, on file with the Secretary of the Authority, with such changes, insertions and omissions therein as may be approved by an Authorized Officer, is hereby approved, and the use of the Preliminary

Official Statement in connection with the offering and sale of the Bonds is hereby authorized and approved. The Authorized Officers are each hereby authorized to certify on behalf of the Authority that the Preliminary Official Statement is deemed final as of its date, within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (except for the omission of certain final pricing, rating and related information as permitted by such Rule).

The Authorized Officers are each hereby authorized and directed to furnish, or cause to be furnished, to prospective bidders for the Bonds a reasonable number of copies of the Preliminary Official Statement.

SECTION 9. The preparation and delivery of an Official Statement, and its use in connection with the offering and sale of the Bonds, is hereby authorized and approved. The Official Statement shall be in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as may be approved by an Authorized Officer, such approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Officers are each hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute the final Official Statement and any amendment or supplement thereto for and in the name and on behalf of the Authority.

SECTION 10. The officers and agents of the Authority are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to consummate the transactions herein authorized and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution. All actions heretofore taken by the officers and agents of the Authority with respect to the transactions set forth above are hereby approved, confirmed and ratified.

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY __, 2013

NEW ISSUE – BOOK-ENTRY ONLY

RATING: S&P: “_”
See the caption “RATING”

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Series 2013A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series 2013A Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the Series 2013A Bonds.

\$ _____ *

ESCONDIDO JOINT POWERS FINANCING AUTHORITY LEASE REVENUE REFUNDING BONDS, SERIES 2013A

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A (the “Series 2013A Bonds”) are payable from base rental payments (the “Base Rental Payments”) to be made by the City of Escondido (the “City”) for the right to use certain real property consisting of an 18-hole golf course, related flood water detention basin, water well and ancillary facilities and related improvements, facilities and equipment (collectively, the “Property”) pursuant to a Lease Agreement, dated as of February 1, 2013 (the “Lease Agreement”), by and between the City, as lessee, and the Escondido Joint Powers Financing Authority (the “Authority”), as lessor. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013A BONDS.”

The Series 2013A Bonds are being issued to provide funds: (i) to currently refund the Authority’s 2001 Lease Revenue Bonds (Reidy Creek Project) (the “2001 Bonds”); and (ii) to pay the costs incurred in connection with the issuance of the Series 2013A Bonds. See the caption “THE REFUNDING PLAN.” The City has covenanted under the Lease Agreement to make all Base Rental Payments provided for therein, to include all such payments as a separate line item in its annual budgets and to make all the necessary annual appropriations for such Base Rental Payments. The City’s obligation to make Base Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defects in title to the Property, there is substantial interference with the City’s right to use and occupy any portion of the Property. See the caption “RISK FACTORS—Abatements.”

The Series 2013A Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Interest on the Series 2013A Bonds is payable semiannually on September 1, 2013 and each March 1 and September 1 thereafter. Purchasers will not receive certificates representing their interest in the Series 2013A Bonds. Individual purchases will be in principal amounts of \$5,000 or integral multiples thereof. Principal of and interest and premium, if any, on the Series 2013A Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the Beneficial Owners of the Series 2013A Bonds. See the caption “THE SERIES 2013A BONDS—Book-Entry Only System.”

The Series 2013A Bonds will be issued pursuant to an Indenture, dated as of February 1, 2013 (the “Indenture”), by and among the City, the Authority and the Trustee. The Series 2013A Bonds and any additional bonds issued pursuant to the Indenture (“Additional Bonds”) are collectively referred to as the “Bonds.”

The Series 2013A Bonds are subject to optional and extraordinary redemption prior to maturity as described under the caption “THE SERIES 2013A BONDS—Redemption.”

The Series 2013A Bonds are special obligations of the Authority, payable solely from Base Rental Payments and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the City or the State of California (the “State”), or any political subdivision thereof, is pledged to the payment of the Series 2013A Bonds.

The obligation of the City to make the Base Rental Payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does 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 or the State has levied or pledged any form of taxation. The Authority has no taxing power.

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

The Series 2013A Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Stradling Yocca Carlson and Rauth, a Professional Corporation, Newport Beach, California, is also acting as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City and the Authority by Jeffrey Epp, Esquire, City Attorney and General Counsel to the Authority, for the Underwriter by Best Best & Krieger LLP and for the Trustee by its counsel. It is anticipated that the Series 2013A Bonds will be available for delivery through the facilities of DTC on or about March 21, 2013.

[STONE & YOUNGBERG LOGO]

Dated: February __, 2013

**DUE TO THE NUMBER OF PAGES OF EXHIBIT(S) A COMPLETE SET IS
AVAILABLE IN THE OFFICE OF THE CITY CLERK OR CITY ATTORNEY.
For Councilmembers, a set is available in the Council reading file.**

* Preliminary; subject to change.