

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2020

NEW ISSUE — BOOK-ENTRY ONLY

RATING:

S&P: “ ”

See “RATING” herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, interest on the Bonds is exempt from State of California personal income taxes. Bond counsel observes that interest on the Bonds is not excluded from gross income for federal income tax purposes. See “TAX MATTERS” herein.



\$ _____ *

CITY OF FULLERTON
(Orange County, California)
Taxable Judgment Obligation
Refunding Bonds, Series 2020

Dated: Date of Delivery

Due: April 1, as shown on the inside cover

The \$ _____ * City of Fullerton Taxable Judgment Obligation Refunding Bonds, Series 2020 (the “Bonds”), are being issued by the City of Fullerton (the “City”) pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, an Indenture of Trust, dated as of November 1, 2020 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), and a resolutions of the City Council of the City adopted on October 6, 2020.

Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2021. Principal is payable on the dates set forth below. The Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository of the Bonds. Individual purchases of interests in the Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive securities representing their interests in the Bonds. Payments of principal of and interest on the Bonds are payable by the Trustee directly to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein.

The Bonds are subject to redemption prior to maturity as described herein.

The Bonds are being issued to (a) refund, on an advance basis, the City’s outstanding City of Fullerton 2013 Taxable Judgment Obligation Bonds maturing on and after April 1, 2028, and (b) pay the costs of issuance of the Bonds, all as more fully described herein. See “FINANCING PLAN” herein.

For the purpose of paying the principal of and interest on the Bonds, the City Council of the City is obligated, under the INDENTURE, to take such actions annually as are necessary or appropriate to cause the debt service on the Bonds due in any fiscal year to be included in the budget for such fiscal year and to make the necessary annual appropriations therefor from any legally available funds, including the City’s General Fund, to ensure that sufficient sums are available to pay the annual principal of and interest on the Bonds as the same shall become due. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

A reserve fund will not be funded for the Bonds.

THE BONDS CONSTITUTE THE ABSOLUTE AND UNCONDITIONAL OBLIGATIONS OF THE CITY, PAYABLE FROM ALL LEGALLY AVAILABLE FUNDS OF THE CITY; HOWEVER, NO OTHER SPECIFIC SOURCE OF REVENUES OR OTHER FUNDS OF THE CITY ARE PLEDGED, NOR IS THE CITY OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS. THE BONDS ARE NOT SUBJECT TO ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY HAS COVENANTED IN THE TRUST AGREEMENT TO PUNCTUALLY PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS IN STRICT CONFORMITY WITH THE TERMS OF THE TRUST AGREEMENT AND OF THE BONDS, AND TO FAITHFULLY OBSERVE AND PERFORM ALL THE AGREEMENTS AND COVENANTS TO BE OBSERVED OR PERFORMED BY THE CITY CONTAINED IN THE TRUST AGREEMENT AND IN THE BONDS.

MATURITY SCHEDULE

SEE THE INSIDE COVER

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds will be offered when, as and if issued, and received by the purchaser thereof, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel, and by Jones & Mayer, Fullerton, California, the City Attorney. Certain legal matters will be passed on for the Underwriter by its counsel, Kutak Rock LLP, Irvine, California. It is anticipated that the Bonds will be available for delivery through the book-entry facilities of DTC on or about November __, 2020.

HilltopSecurities

Dated: October __, 2020

*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

\$ _____ *

CITY OF FULLERTON
(Orange County, California)
Taxable Judgment Obligation
Refunding Bonds, Series 2020

MATURITY SCHEDULE

Maturity (April 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP† Suffix
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\$ _____ % Term Bonds Maturing April 1, _____; Price: _____, to Yield _____ %—CUSIP†: _____

*Preliminary, subject to change.

† Copyright 2020, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the registered owners of the Bonds. None of the City or the Underwriter is responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the City with respect to the Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond or note owner and the City or the Underwriter indicated in this Official Statement.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Underwriter.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Information in Official Statement. Certain of the information set forth in this Official Statement has been furnished by sources which are believed to be reliable.

Involvement of Underwriter. The Underwriter has provided the following statement 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.

Document Summaries. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

Forward Looking Statements. When used in this Official Statement and in any continuing disclosure by the City, in any press release and in any oral statement made with the approval of an authorized officer of the City, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the City, the County, the other parties described in this Official Statement, or the condition of the property within the City since the date of this Official Statement.

Website. The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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LOCATION MAP



CITY OF FULLERTON

303 West Commonwealth Avenue

Fullerton, CA 92832

(714) 738-6300

www.cityoffullerton.com

CITY COUNCIL MEMBERS

Jennifer Fitzgerald, *Mayor*

Jan M. Flory, *Mayor Pro Tem*

Jesus Silva, *Councilmember*

Bruce Whitaker, *Councilmember*

Ahmad Zahra, *Councilmember*

CITY OFFICIALS

Kenneth A. Domer, *City Manager*

Ellis Chang, *Director of Administrative Services / City Treasurer*

Lucinda Williams, *City Clerk*

Jones & Mayer, *City Attorney*

PROFESSIONAL SERVICES

Bond Counsel

Jones Hall, A Professional Law Corporation

San Francisco, California

Disclosure Counsel

Quint & Thimmig LLP

Larkspur, California

Municipal Advisor

Urban Futures Inc.

Tustin, California

Trustee/Escrow Bank

U.S. Bank National Association

Los Angeles, California

Verification Agent

Causey Demgen & Moore P.C.

Denver, Colorado

\$ _____ *

CITY OF FULLERTON
(Orange County, California)
Taxable Judgment Obligation Refunding Bonds, Series 2020

INTRODUCTION

General

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City of Fullerton (the “City”) of its \$ _____* aggregate principal amount of City of Fullerton Taxable Judgment Obligation Refunding Bonds, Series 2020 (the “Bonds”).

Definitions of certain capitalized terms used in this Official Statement are set forth in APPENDIX A—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE. This Official Statement contains brief descriptions of the Bonds and the City. Such descriptions do not purport to be comprehensive or definitive. All references in this Official Statement to specific documents are qualified in their entirety by reference to such documents and references to the Bonds are qualified in their entirety by reference to the form of the Bonds included in the Indenture (hereinafter defined). Copies of the Indenture and other documents described in this Official Statement may be obtained from the City as described under the subheading “Other Information” below.

The City

The City is located in Southern California in Orange County (the “County”), approximately 30 miles southeast of the City of Los Angeles. The City was founded in 1887 and incorporated in 1904 and operates as a general law city. The City encompasses approximately 22.4 square miles and has a population of approximately 143,000. The City is bordered by La Habra and Brea on the north, La Mirada on the northwest, Buena Park on the west, Anaheim on the south, and Placentia on the east.

Policy-making and legislative authority are vested in the City Council of the City (the “City Council”) consisting of a Mayor and four other elected City Council members. The City Council appoints the City Manager and the City Attorney. The City Manager is responsible for directing, coordinating and carrying out City Council policies. The City provides the full range of services normally associated with a municipality, police and fire protection, community development, water and sanitation services, construction and maintenance of streets and infrastructure, recreational and cultural services, library services, general governmental support, and a general aviation airport.

See “THE CITY,” “CITY FINANCIAL INFORMATION,” APPENDIX B—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY and APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE YEAR ENDED JUNE 30, 2019.

* Preliminary, subject to change.

Purpose

The Bonds are being issued to (a) refund, on an advance basis, the City's 2013 Taxable Judgment Obligation Bonds (the "2013 Bonds") maturing on and after April 1, 2028 (the "Refunded 2013 Bonds"), and (b) pay the costs of issuance of the Bonds. See "FINANCING PLAN."

Authority for Issuance

The Bonds are issued by the City pursuant to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, an Indenture of Trust, dated as of November 1, 2020 (the "Indenture"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee"), and a resolution of the City Council adopted on October 6, 2020.

Source of Payment

For the purpose of paying the principal of and interest on the Bonds, the City Council has covenanted under the Indenture, to take such actions annually as are necessary or appropriate to cause the debt service on the Bonds due in any fiscal year to be included in the budget for such fiscal year and to make the necessary appropriations therefor from any legally available funds, including the General Fund, to ensure that sufficient sums are available to pay the annual principal of and interest on the Bonds as the same become due. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Continuing Disclosure

The City has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). These covenants have been made to assist the Underwriter in complying with the Rule. The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption "CONTINUING DISCLOSURE." Also, see APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Bonds is not excluded from gross income for federal income tax purposes. See "TAX MATTERS."

Risk Factors

Prospective investors must review this Official Statement and the Appendices hereto in their entirety and should consider certain risk factors associated with the purchase of the Bonds, some of which have been summarized in the section herein entitled "RISK FACTORS" herein.

Other Information

This Official Statement speaks only as of its date and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the City Clerk, City of Fullerton, 303 West Commonwealth Avenue, Fullerton, CA 92832 (714) 738-6300. The City may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from sources which are believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

FINANCING PLAN

The Bonds are being issued to (a) refund, on an advance basis, the Refunded 2013 Bonds, and (b) pay the costs of issuance of the Bonds.

In connection with a judgment rendered against the City on December 4, 2012 relating to an inverse condemnation claim, damages were assessed against the City in the amount of \$21,134,451.47. Pursuant to an agreement among the parties to the action, the City made a \$6,000,000 payment towards the damages that were awarded by the judgement. The \$6,000,000 payment constituted the total obligation which the City was required to pay from its own funds arising from the judgment. A portion of the proceeds of the 2013 Bonds were used to satisfy the \$6,000,000 payment as well as to reimburse the City for amounts paid towards the damages that have been awarded by the judgment.

In connection with an incident involving police misconduct that occurred on July 5, 2011, the City reached a settlement with the claimant on June 20, 2012, under which settlement the City agreed to pay to the claimant the amount of \$1,000,000 in return for the agreement by the claimant to release all claims against the City arising from the incident. A portion of the proceeds of the 2013 Bonds were used to satisfy such claim as well as to reimburse the City for amounts paid towards the settlement.

A portion of the proceeds of the Bonds will be deposited into an escrow fund (the "Escrow Fund") established under an escrow agreement (the "Escrow Agreement") by and between the City and U.S. Bank National Association, as escrow agent (the "Escrow Bank"). Amounts in the Escrow Fund will be held in cash and invested in certain obligations of the United States of America (the "Escrow Securities"). The maturing Escrow Securities, the investment earnings thereon and the uninvested cash in the Escrow Fund will be sufficient to pay interest on the Refunded 2013 Bonds to and including April 1, 2023, and to redeem

the Refunded 2013 Bonds on April 1, 2023 (the “Redemption Date”), at a redemption price equal to the principal amount thereof, without premium (the “Redemption Price”).

Causey Demgen & Moore, P.C., certified public accounts (the “Verification Agent”), will verify as to the Escrow Fund that the cash and any obligations on deposit therein will be sufficient to maturing Escrow Securities, the investment earnings thereon and the uninvested cash in the Escrow Fund will be sufficient to pay interest on the Refunded 2013 Bonds to and including April 1, 2023, and to redeem the 2013 Refunded Bonds on the Redemption Date at the Redemption Price. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

The Refunded 2013 Bonds to be refunded are shown in the following table:

Maturity Date	Principal Amount Refunded	Redemption Date	Redemption Price	CUSIP [†] Number
4/1/28	\$1,890,000	4/1/23	100.000	359806 AL0
4/1/33	2,480,000	4/1/23	100.000	359806 AM8

The cash and Escrow Securities on deposit held in the Escrow Fund will be pledged to the redemption of the Refunded 2013 Bonds and will not be available for the payment of the Bonds.

SOURCES AND USES OF FUNDS

The following are the expected sources and uses of funds in connection with the Bonds:

SOURCES

Principal Amount of Bonds

Total Sources of Funds

USES

Deposit in Escrow Fund

Costs of Issuance⁽¹⁾

Total Uses of Funds

(1) Includes the Underwriter’s discount, fees for services of bond counsel, disclosure counsel, the rating agency, the municipal advisor, the Trustee and other costs.

[†] Copyright 2020, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor’s. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services.

THE BONDS

Authority for Issuance

The Bonds are issued under provisions of the California Government Code. The specific terms and conditions for issuance of the Bonds are contained in the Indenture.

For the purpose of paying the principal of and interest on the Bonds, the City Council is obligated, under the Indenture, to take such actions annually as are necessary or appropriate to cause the debt service on the Bonds due in any fiscal year to be included in the budget for such fiscal year and to make the necessary appropriations therefor from any legally available funds, including the General Fund, to ensure that sufficient sums are available to pay the annual principal of and interest on the Bonds as the same become due. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

Description of the Bonds

The Bonds will be issued in denominations of \$5,000 each or any integral multiple thereof, will be dated the date of their delivery to the initial purchasers thereof, and will be fully registered bonds, without coupons, with interest payable semiannually on each April 1 and October 1, commencing April 1, 2021 (each, an “Interest Payment Date”), to the registered owners whose names appear on the bond registration books of the Trustee as of the close of business on the fifteenth calendar day of the month immediately preceding an Interest Payment Date. Principal will be payable on the dates and in the amounts set forth on the front cover hereof. Payments of principal of and interest on the Bonds will be made by the Trustee, as paying agent, to The Depository Trust Company (“DTC”), New York, New York, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX F—BOOK-ENTRY ONLY SYSTEM.

A 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 a duly authorized attorney of such person, upon surrender of that Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee shall collect any tax or other governmental charge on the transfer of any Bonds. Whenever any Bond or Bonds are surrendered for transfer, the City will execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The City will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of Bonds. The City will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

Debt Service Schedule

The following table shows the debt service schedule with respect to the Bonds (assuming no optional redemptions).

Maturity April 1	Principal ⁽¹⁾	Interest ⁽²⁾	Total
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
TOTAL			

(1) Includes mandatory sinking fund installments.

(2) Interest on the Bonds is payable semiannually on each April 1 and October 1, commencing April 1, 2021.

Redemption

Optional Redemption. The Bonds maturing on or before April 1, 20__, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after April 1, 20__, are subject to redemption prior to their respective stated maturities, at the option of the City, among maturities on such basis as designated by the City, from any source of available funds, on any date on or after April 1, 20__, at a redemption price equal to 100% of the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium. The City shall file a Certificate of City with the Trustee at least 45 days prior to the date fixed for redemption of any Bonds which designates the aggregate principal amount of the Bonds to be redeemed and the maturities of the Bonds to be redeemed.

Mandatory Sinking Fund Redemption. The Bonds maturing on April 1, ____ (the “Term Bonds”), are also subject to mandatory sinking fund redemption on April 1 in the years, and in the amounts, as set forth in the following table, at a redemption price equal to one hundred percent (100%) of the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption:

Sinking Fund Redemption Date (April 1)	Principal Amount to be Redeemed

†Maturity

If some but not all of the Term Bonds have been optionally redeemed, the total amount of all future sinking fund payments will be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City, which shall notify the Trustee in writing of such determination.

Notice of Redemption. The Trustee on behalf and at the expense of the City shall mail (by first class mail) notice of any redemption to the respective Owners of Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and the Municipal Securities Rulemaking Board, at least 20 but not more than 60 days prior to the date fixed for redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Office of the Trustee identified in such notice for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. In addition, any notice of optional redemption shall state that the City has the right to rescind the notice as provided in the Indenture.

Right to Rescind Notice of Redemption. The City has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default. The City and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture, except that the time period for mailing notice of redemption shall not apply to mailing any notice of rescission.

Manner of Redemption. Whenever provision is made for the redemption of less than all of the Bonds of a maturity, the Trustee shall select the Bonds of such maturity to be redeemed by lot. For purpose 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.

Partial Redemption of Bonds. If only a portion of a Bond is called for redemption, then upon surrender of such Bond the City will execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the City, a new Bond or Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest on the Bonds so called for redemption have been duly provided, such Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. Unless otherwise directed in writing by the City, the Trustee shall cancel and destroy all Bonds redeemed.

SECURITY FOR THE BONDS

Repayment of Bonds; Equal Security

The Bonds are unsecured obligations payable from any source of legally available funds of the City, including but not limited to amounts held by the City on deposit in its General Fund. The Bonds are not secured by a pledge of or lien on any specific revenues, income or funds of the City.

The obligations of the City under the Bonds, including the obligation to make all payments of principal of and interest on the Bonds when due and the obligation of the City to make the deposits required under the Indenture for the security of the Bonds, are obligations of the City imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The Bonds do not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation. Neither the Bonds nor the obligations of the City to make payments on the Bonds constitute an indebtedness of the City, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

In consideration of the acceptance of the Bonds by those who hold the same from time to time, the Indenture constitutes a contract between the City and the Owners from time to time of the Bonds and the covenants and agreements set forth in the Indenture to be performed on behalf of the City are for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

A reserve fund will not be funded for the Bonds.

Deposit of Amounts to Pay Debt Service

The City shall pay or cause to be paid to the Trustee, not later than five Business Days prior to each date on which the principal of or interest on the Bonds is due and payable, an amount which is sufficient, together with other amounts then held by the Trustee in the Debt Service Fund, to pay the aggregate amount of principal of and interest on the Bonds coming due and payable on such date.

Debt Service Fund and Accounts Therein

The Indenture creates a separate fund to be known as the “Debt Service Fund,” to be held by the Trustee in trust for the benefit of the Bond Owners.

The Trustee will hold the Debt Service Fund for the uses and purposes set forth herein, so long as any of the Bonds remain Outstanding. The City will transfer an amount of legally available funds to the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective special accounts within the Debt Service Fund, which accounts are established with the Trustee with respect to the Bonds, in the following order of priority:

(a) Interest Account. On or before the 3rd Business Day preceding each date on which interest on the Bonds is due and payable, the City will transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount then on deposit in the Interest Account, equals the aggregate

amount of the interest coming due and payable on the Outstanding Bonds on that date. The Trustee will apply amounts in the Interest Account solely for the purpose of paying the interest on the Bonds when due and payable.

(b) Principal Account. On or before the 3rd Business Day preceding each date on which principal of the Bonds is due and payable at maturity or by operation of mandatory sinking fund redemption, the City will transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then on deposit in the Principal Account, equals the amount of principal coming due and payable on such date on the Outstanding Bonds, including the principal amount of any Term Bonds which are subject to mandatory sinking fund redemption on such date under the Indenture. The Trustee shall apply amounts in the Principal Account solely for the purpose of paying the principal of the Bonds at the maturity thereof or upon the mandatory sinking fund redemption thereof.

THE BONDS CONSTITUTE THE ABSOLUTE AND UNCONDITIONAL OBLIGATIONS OF THE CITY, PAYABLE FROM ALL LEGALLY AVAILABLE FUNDS OF THE CITY; HOWEVER, THE BONDS ARE UNSECURED OBLIGATIONS AND NO SPECIFIC SOURCE OF REVENUES OR OTHER FUNDS OF THE CITY ARE PLEDGED, NOR IS THE CITY OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS. THE BONDS ARE NOT SUBJECT TO ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY HAS COVENANTED IN THE INDENTURE TO PUNCTUALLY PAY THE INTEREST ON, AND THE PRINCIPAL TO BECOME DUE ON EVERY BOND ISSUED PURSUANT TO THE INDENTURE IN STRICT CONFORMITY WITH THE TERMS OF THE INDENTURE AND OF THE BONDS, AND TO FAITHFULLY OBSERVE AND PERFORM ALL THE AGREEMENTS AND COVENANTS TO BE OBSERVED OR PERFORMED BY THE CITY CONTAINED IN THE INDENTURE AND IN THE BONDS.

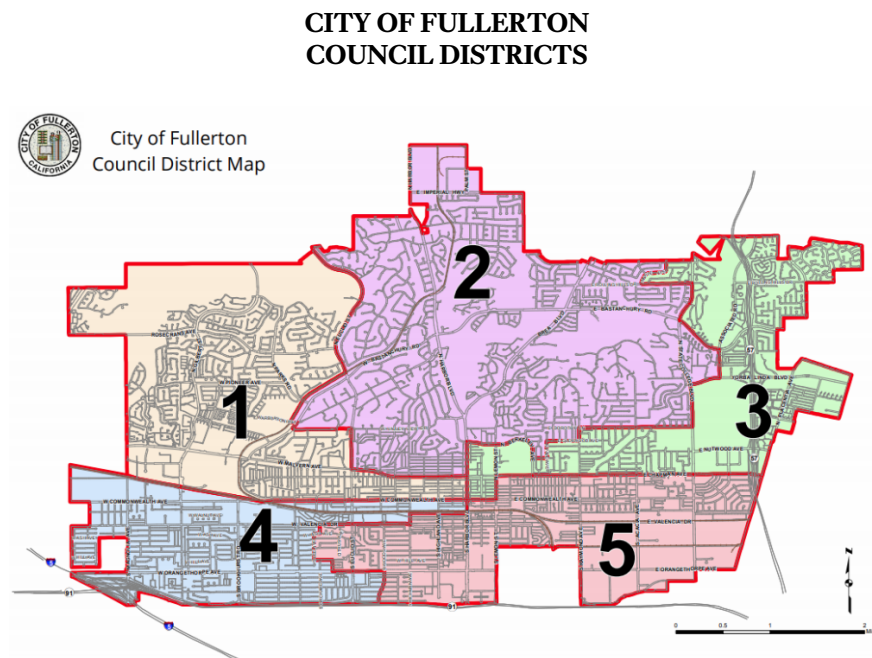
The Bonds have not been, and are not required to be, approved by the City's electorate. Consequently, under current law in California, the City cannot levy *ad valorem* or special taxes in excess of Constitutional limits to support the payment of annual Debt Service on the Bonds. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS" herein. The City has covenanted in the Indenture to appropriate a sufficient amount in each fiscal year to pay that fiscal year's annual Debt Service. The extent to which these obligations may be specifically enforced, however, has not been tested in California. A Bondholder, however, may exercise any remedies available pursuant to the law or the Indenture if an event of default occurs under the Indenture. See "RISK FACTORS—Bankruptcy."

THE CITY

The City is located in Southern California in Orange County (the "County"), approximately 30 miles southeast of the City of Los Angeles. The City was founded in 1887 and incorporated in 1904 and operates as a general law city. The City encompasses approximately 22.4 square miles and has a population of approximately 143,000. The City is bordered by La Habra and Brea on the north, La Mirada on the northwest, Buena Park on the west, Anaheim on the south, and Placentia on the east. The City is the home of California State University, Fullerton and Fullerton College.

The City is a general law city and is governed by a City Council of five representatives. City Council members were historically elected city-wide on an at-large basis for staggered four-year terms. Effective November 2018, the City Council members are now elected by District. Districts 3 and 5 elected

representatives in November of 2018 and Districts 1, 2 and 4 will elect representatives in November 2020. See the map below for the locations of the Council Districts in the City.



Each year, the members of the City Council choose one member to serve as Mayor and one member to serve as Mayor Pro Tem. The Mayor Pro Tem acts in the Mayor's place when absent. The City Council appoints the City Manager who is responsible for supervising day to day operations of the City and carrying out policies set by the City Council, and the City Attorney.

Members of the Council and key administrative personnel of the City are listed at the front of this Official Statement.

See APPENDIX B—GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY for an additional description of the City as well as certain demographic and statistical information.

CITY FINANCIAL INFORMATION

Financial Statements and Budgetary Process

The City's accounting policies conform to generally accepted accounting principles. The audited financial statements also conform to the principles and standards for public financial reporting established by the Governmental Accounting Standards Board.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Audited Financial Statements. The City retained Lance, Soll & Lunghard, LLP, Brea, California (the “City’s Auditor”), to examine the general purpose financial statements of the City as of and for the year ended June 30, 2019. The audited financial statements for fiscal year ended June 30, 2019, are included in APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019. The City has not requested, and the City’s Auditor has not provided, any review or update of such financial statements in connection with their inclusion in this Official Statement.

Budget Process. The City Council is required to adopt a final budget by no later than the close of its fiscal year. The annual budget serves as the foundation for the City’s financial planning and control. Budget control is maintained at the fund and department level. The City Manager has the authority to approve appropriation transfers within the same department/fund. Transfers between funds/departments and amendments to the budget require City Council approval.

A comprehensive mid-year budget review is done in February or March to update revenue and expenditure projections. In addition, the City Council receives quarterly budget updates. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the City’s operating budget is at the fund/department level with departmental oversight of major expenditure categories as well as by program area within each fund. For the City’s capital improvement budget each individual capital improvement project with budget transfers between subprojects is subject to City Manager approval and budget transfers between projects are subject to City Council approval. Appropriation increases, decreases or transfers between funds require the approval of the City Council.

All appropriations lapse at the end of the fiscal year unless specific carryovers are approved by the City Council.

Certain of the City’s revenues are collected and dispersed by the State (such as sales tax and motor-vehicle license fees) or allocated in accordance with State law (most importantly, property taxes). Therefore, State budget decisions can have an impact on City finances. See “STATE BUDGET INFORMATION.”

Impact of COVID-19 Pandemic on Future Budgeting. The COVID-19 Pandemic is ongoing, and the duration and severity of the outbreak, and the ramifications of the economic and other of actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the City’s operations and finances is unknown.

The City is currently reviewing the short and long-term impacts of the COVID-19 Pandemic and what, if any, expenditure reductions will be needed due to reduced revenue in Fiscal Years 2019-20 and 2020-21. The depth, breadth and length of any economic downturn will directly impact City's planning with regards to reductions in expenditures such as staffing cuts, program elimination, reductions in services.

See the captions "CITY FINANCIAL INFORMATION—General Fund Budget—The City's Fiscal Year 2020-21 General Fund Budget" and "RISK FACTORS—COVID-19 Pandemic."

General Fund Balance Sheet

The following table shows the City's audited General Fund balance sheet for the past five fiscal years.

TABLE 1
CITY OF FULLERTON
GENERAL FUND
BALANCE SHEET

	Fiscal Year Ending June 30,				
	2014-15	2015-16	2016-17	2017-18	2018-19
	Audited	Audited	Audited	Audited	Audited
ASSETS					
Cash and investments	\$ 18,136,657	\$ 13,707,269	\$ 4,689,159	\$ 15,744,269	\$ 21,966,670
Accounts receivable	1,241,474	1,211,628	1,389,920	1,388,463	1,436,576
Taxes receivable	235,633	195,494	282,450	250,973	252,815
Other accrued revenue receivable	4,689,922	9,262,769	6,145,137	5,642,088	6,767,286
Prepaid costs	5,768	4,523	61,433	283,010	-
Due from other funds	543,298	139,048	7,438,263	423,642	1,300,444
Inventories	6,821	7,037	6,092	6,637	6,528
Total Assets	24,859,573	24,527,768	20,012,454	23,739,082	31,730,319
LIABILITIES					
Accounts payable	1,225,013	1,873,279	1,281,811	1,625,802	2,069,183
Accrued liabilities	1,981,704	2,726,314	2,977,175	2,523,638	2,702,782
Unearned revenues	140,240	527,000	537,990	571,839	78,817
Deposits payable	4,301,400	4,507,732	4,486,260	4,736,364	4,345,580
Total Liabilities	7,648,357	9,634,325	9,283,236	9,457,643	9,196,362
DEFERRER INFLOWS OF RESOURCES					
Unavailable revenue	-	-	687	-	52,783
FUND BALANCES					
Non-spendable	12,589	11,560	67,525	289,647	6,528
Restricted	-	-	-	-	1,386,437
Assigned	7,967,087	8,743,178	9,138,583	8,992,321	15,656,277
Unassigned	9,231,540	6,138,705	1,522,423	4,999,471	5,431,932
Total Fund Balances	17,211,216	14,893,443	10,728,531	14,281,439	22,481,174
Total Liabilities, Deferred Inflows of Resources and Fund Balances	24,859,573	24,527,768	20,012,454	23,739,082	31,730,319

Source: City of Fullerton 2014-19 CAFRs.

General Fund Revenues, Expenditures, and Changes in Fund Balances

The following table shows the City's audited results for General Fund revenues and expenditures for Fiscal Years 2016-17 through 2018-19, unaudited actuals for Fiscal Year 2019-20 and budgeted projections for Fiscal Year 2020-21.

TABLE 2
CITY OF FULLERTON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Fiscal Year Ending June 30,				
	2016-17 Audited	2017-18 Audited	2018-19 Audited	2019-20 Unaudited	2020-21 Budgeted
REVENUES					
Taxes	\$ 66,134,064	\$ 68,809,590	\$ 73,900,507	\$ 72,974,949	\$ 73,621,148
Franchise taxes	4,181,386	4,335,536	4,493,400	4,107,467	4,532,880
Licenses and permits	2,036,555	2,283,873	2,783,564	2,120,785	2,215,930
Intergovernmental	601,135	1,086,121	918,441	845,972	636,000
Charges for services	7,872,914	7,107,001	9,340,500	9,513,599	10,160,027
Investment income	3,325,629	3,716,814	6,171,974	4,295,478	4,814,572
Fines, forfeitures, and penalties	1,173,473	1,399,068	1,415,167	1,002,502	1,687,540
Miscellaneous	1,592,017	1,122,221	1,502,966	737,111	490,175
Total Revenues	86,917,173	89,860,224	100,526,519	95,597,863	98,158,272
EXPENDITURES					
General government	5,128,756	4,362,990	4,780,536	2,944,436	8,016,440
Public safety	64,116,949	64,153,083	67,598,481	71,366,748	74,279,278
Community development	5,507,208	5,294,132	5,283,962	5,629,998	4,882,979
Human and leisure	9,345,050	9,334,522	9,891,682	10,749,931	11,067,455
Public works	7,122,327	6,734,985	6,254,014	7,134,704	7,434,771
Refuse collection	-	-	-	-	-
Capital outlay	165,538	43,466	398,638	100,000	100,000
Debt service – Principal	-	-	306,135	245,280	252,160
Debt service – Interest	-	-	-	60,877	54,000
Total Expenditures	91,385,828	89,923,178	94,513,448	98,231,974	106,087,083
EXCESS OF REVENUES OVER EXPENDITURES	(4,468,655)	(62,954)	6,013,071	(2,634,111)	(7,928,811)
OTHER FINANCING SOURCES/(USES)					
Proceeds from sale of capital assets	-	3,150,336	2,411,313	371,758	5,000
Transfers in	660,171	465,554	396,351	300,000	300,000
Transfers out	(356,428)	-	(621,000)	(100,000)	-
Total Other Financing Sources	303,743	3,615,890	2,186,664	571,758	305,000
Proposed Budget Balancing Measures ⁽¹⁾	-	-	-	-	(7,923,811)
NET CHANGE IN FUND BALANCES	(4,164,912)	3,552,936	8,199,735	(2,062,353)	300,000
FUND BALANCES – BEGINNING OF YEAR	14,893,443	10,728,531	14,281,467	22,481,202	20,418,849
FUND BALANCES – END OF YEAR	10,728,531	14,281,467	22,481,202	20,418,849	20,718,849

Source: City of Fullerton 2016-19 CAFRs and City of Fullerton Finance Department.

(1) Reflects budget adjustments that will be presented for adoption by the City Council at the City's mid-year budget review in early 2021. The budget balancing measures are projected to reduce the general fund operating expenses by \$7.9 million in FY2020-21. For a discussion of the budget balancing measures, see "General Fund Budget."

General Fund Budget

The following table shows the City's General Fund adopted budget figures and a comparison of the final General Fund budgets versus audited actuals for Fiscal Year 2018-19 and unaudited actuals for Fiscal Year 2019-20.

TABLE 3
CITY OF FULLERTON
GENERAL FUND
BUDGET COMPARISON
Fiscal Years 2018-19 and 2019-20

	Fiscal Year 2018-19			Fiscal Year 2019-20		
	Adopted Budget	Final Budget	Audited Actuals	Adopted Budget	Amended Budget	Unaudited Actuals
REVENUES						
Taxes	\$ 76,169,530	\$ 76,169,530	\$ 78,393,907	\$ 78,178,770	\$ 75,714,321	\$ 77,082,416
Licenses and permits	1,955,710	1,955,710	2,783,564	2,150,467	2,147,552	2,120,785
Intergovernmental	505,280	567,159	918,441	586,000	701,423	845,972
Charges for services	8,125,511	10,413,137	9,340,500	10,241,445	9,590,441	9,513,599
Use of money and property	4,514,252	5,045,626	6,171,974	4,851,337	4,949,010	4,295,478
Fines, forfeitures and penalties	1,190,200	1,190,200	1,415,167	1,180,200	987,743	1,002,502
Miscellaneous	660,572	660,572	1,502,966	448,715	561,087	737,111
Total Revenues	93,121,055	96,001,934	100,526,519	97,636,934	94,651,577	95,597,863
EXPENDITURES						
City council	509,683	582,047	582,047	712,958	719,742	719,742
City Manager	843,477	786,046	773,536	880,279	896,627	896,627
City Clerk	583,528	583,528	472,121	466,070	528,278	528,278
Administrative services	1,926,906	1,926,906	1,856,149	1,928,437	1,932,057	1,932,057
Human Resources	871,078	871,078	661,598	775,765	782,878	782,878
(General Government)	(1,290,000)	(1,264,900)	435,085	(1,915,146)	(1,915,146)	(1,915,146)
Public safety - Fire	20,202,269	23,376,230	23,342,093	23,845,362	23,892,659	23,892,659
Public safety - Police	46,784,827	46,790,515	44,256,388	47,349,116	47,474,089	47,474,089
Community development	5,557,796	5,557,796	5,283,962	5,474,456	5,629,998	5,629,998
Parks and recreation	6,045,159	6,049,634	6,051,615	6,495,573	6,498,276	6,498,276
Library	4,159,746	4,205,225	3,840,067	4,248,375	4,251,655	4,251,655
Public works	6,867,696	6,909,206	6,254,014	7,033,579	7,134,704	7,134,704
Capital outlay	55,700	471,039	398,638	100,000	100,000	100,000
Debt service - Principal retirement	9,190	306,864	306,135	247,110	306,157	306,157
Total Expenditures	93,127,055	97,151,214	94,513,448	97,641,934	98,231,974	98,231,974
EXCESS OF REVENUES OVER EXPENDITURES	(6,000)	(1,149,280)	6,013,071	(5,000)	(3,580,397)	(2,634,111)
OTHER FINANCING SOURCES						
Proceeds from sale of capital assets	6,000	6,000	2,411,313	5,000	375,000	371,758
Transfers in	300,000	448,458	396,351	300,000	300,000	300,000
Transfers out	(2,625,000)	(6,635,889)	(621,000)	(100,000)	(100,000)	(100,000)
Total Other Financing Sources	(2,319,000)	(6,181,431)	2,186,664	205,000	575,000	571,758
NET CHANGE IN FUND BALANCES	(2,325,000)	(7,330,711)	8,199,735	200,000	(3,005,397)	(2,062,353)
FUND BALANCES - BEGINNING OF YEAR	14,281,439	14,281,439	14,281,439	22,481,174	22,481,174	22,481,174
FUND BALANCES - END OF YEAR	11,956,439	6,950,728	22,481,174	22,681,174	19,475,777	20,418,821

Source: City of Fullerton Finance Department.

The City's Fiscal Year 2020-21 General Fund Budget. Due to the unanticipated and severe disruption of the economy as a result of the COVID-19 pandemic, the City Staff has presented the City Council with the following proposed reductions in order to balance the City's General Fund Fiscal Year 2020-21 budget and reduce an expected \$7.9 million general fund deficit. The following proposed budget adjustments will be presented for adoption by the City Council at the City's mid-year budget review in early 2021:

Separation (Layoffs) of Non-Regular Employees. The City has significantly reduced program service levels in Parks and Recreation and in the Library in response to the state's shelter in place order. In April 2020 the City separated approximately 153 of its employees, the majority of which supported Parks and Recreation and Library services as a result of the fiscal impacts of COVID-19 and the reduction in programs and services. City Staff projects that approximately \$1.3 million could be saved by not re-hiring these non-regular employees in Fiscal Year 2020-21. Parks and Recreation and the Library retain a number of part-time non-regular employees to provide seasonal programmatic support services.

Vacancy Savings (Hiring Freeze). City Staff projects that \$3.2 million could be saved by vacancy savings measures. The projected vacancy savings now include seven sworn public safety vacancies comprised of two high ranking police captain positions anticipated to be vacant at least half the year and a rolling average of five entry-level police officer vacancies per year. Overall, City Staff projects that of the City's 68.5 full-time equivalent ("FTE") vacant positions that 39.5 FTE could be kept vacant for the 2020-21 fiscal year.

Temporary Closure of the Museum. The City has begun assessing opportunities to enable to the City operated Fullerton Museum Center (the "Museum") to operate independently with reduced subsidies from the City. The Museum has been closed to the public during the since the onset of the state's shelter-in-place order, reducing related operating costs. The savings from operational reductions at the Museum in Fiscal Year 2020-21 at budget adoption were estimated at \$305,000.

Reducing the Library's Hours Open to the Public from 61 to 34 Hours. The Fullerton Public Library (the "Library") has been closed to the public since the onset of the state's shelter-in-place order. While the Library's operations have been ongoing with services such as drive thru book check outs, the Library's service levels have decreased and Library hours have been reduced. Budgeted savings in expenditures on Library staff and operations reflect the change in service levels. The savings from operation reductions at the Library in Fiscal Year 2020-21 at budget adoption were estimated at \$149,000.

Discretionary Training and Travel Reductions. Travel by City employees has been significantly reduced since the onset of the state's shelter-in-place order. The savings from reductions related to non-essential citywide training and corresponding travel costs in Fiscal Year 2020-21 at budget adoption were estimated at \$57,000.

Negotiated Labor Savings and Executive Team Salary Reduction of 10%. In anticipation of needed labor reductions that would be negotiated with the various employee bargaining groups, members of the City Executive Team voluntarily agreed to 10% pay reductions in Fiscal Year 2020-21 at an estimated savings of \$195,000. City Staff has initiated discussions with all City employee bargaining groups to seek input on cost reduction measures and began making formal proposals to the bargaining units.

In total, the reductions proposed by City Staff are estimated to reduce the City's general fund expenditures by \$5.2 million in Fiscal Year 2020-21. The City Council adopted the City's Fiscal Year 2020-21 budget with the understanding that City Staff would work with the employee bargaining groups and make further operational cuts where appropriate to achieve the remaining savings of \$2.7 million needed to close the \$7.9 million Fiscal Year 2020-21 General Fund deficit.

Ongoing Cost Reduction Measures Subsequent to Budget Adoption. Since the adoption of the City's Fiscal Year 2020-21 budget, City Staff has identified an additional \$700,000 in operational cost reductions and \$1.1 million in additional vacancies, layoffs, and negotiated labor savings to assist with closing the \$2.7 million budget deficit. City Staff projects that the remaining deficit of \$900,000 may be closed with improved revenue projections and staff time that can be submitted as eligible expenditures against CARES Act funding. City Staff will present these budget adjustments to the City Council for approval on or before the City's mid-year budget review in February or March 2021.

CARES Act and Federal Aid. The City expects to receive federal aid money from the CARES Act and from other federal agencies to help cover costs associated with responding to the COVID-19 Pandemic. The City currently estimates that it will receive approximately \$1.2 million in CARES Act pass through funding from the County of Orange, approximately \$1.8 million in CARES Act pass through funding from the State and other additional federal aid and grants from other federal agencies. These funds are limited in purpose and are intended to cover unbudgeted response and community support activities only. For additional discussion of the CARES Act, see "RISK FACTORS—COVID-19 Pandemic."

City Financial Management

The City Council has adopted financial management policies including: (1) a general finance and budget policy; (2) an investment policy to ensure the prudent investment of City funds; and (3) a debt management policy. The City's fiscal policies are reviewed at least annually and are adopted or reaffirmed in conjunction with approval of the budget.

Reserves Policy. The City maintains a minimum General Fund balance of 10% of annual General Fund expenditures and strives to increase the level to 17%. The reserve fund balance is designated as an assigned fund balance and may be used in the event of a significant financial emergency.

Investment Policy. The City invests its funds (except pension and retirement funds) in accordance with its Investment Policy, as most recently approved June 4, 2019 (the "Investment Policy"), was prepared by the City's Chief Fiscal Officer as authorized by section 53601 of the Government Code of California. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield.

Debt Management Policy. In accordance with section 8855(i) of the California Government Code the City adopted a debt management policy on July 7, 2020, to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the City.

Infrastructure Policy. In July 2020, the City Council adopted an ordinance establishing an infrastructure financing policy. Ordinance No. 3284 establishes an infrastructure fund and pledges approximately half of the incremental growth in secured property tax and sales tax revenues to the infrastructure fund above a given baseline. Amounts in the infrastructure fund are pledged to be used exclusively for maintenance, repair and replacement of public infrastructure in the City that are not otherwise supported by the capital improvement program.

Principal Sources of General Fund Revenues

The City relies on several sources to balance its General Fund budget. The most important of these revenue sources (based on percentage of the total revenue budget) are taxes and fees including the following: property taxes, sales taxes, and charges for services.

The following table shows the City’s General Fund tax revenues by source for the four most recent fiscal years and budgeted projections for Fiscal Year 2020-21:

TABLE 4
CITY OF FULLERTON
GENERAL FUND TAX REVENUES BY SOURCE

	Fiscal Year				
	2016-17 Audited	2017-18 Audited	2018-19 Audited	2019-20 Unaudited	2020-21 Budgeted
Property tax	\$39,738,187	\$42,146,100	\$44,204,121	\$45,884,386	\$47,042,828
Sales tax	20,528,382	20,870,186	23,411,301	22,111,203	21,338,510
Transient occupancy tax	2,876,859	3,008,720	3,328,337	2,321,925	2,437,332
Franchise tax	4,181,386	4,335,535	4,493,400	4,107,467	4,532,880
Other taxes	2,990,636	2,784,583	2,956,748	2,657,434	2,802,478
Total Tax Revenues	<u>\$70,315,450</u>	<u>\$73,145,124</u>	<u>\$78,393,907</u>	<u>\$77,082,415</u>	<u>\$78,154,028</u>

Source: City of Fullerton Finance Department.

In Fiscal Year 2018-19, the City’s General Fund tax revenues accounted for \$78,393,907 or approximately 78% of the City’s total General Fund revenues for Fiscal Year 2018-19. Together, the City’s General Fund tax revenues are expected to account for approximately \$77,082,415 or approximately 81% of the total General Fund revenue for Fiscal Year 2019-20 and are projected to account for \$78,154,028 or approximately 80% of the total General Fund revenue budget for Fiscal Year 2020-21.

Property Taxes. The County levies a tax of 1% on the assessed valuation of property within the County. The City receives approximately a 16% share of this 1% levy for property located within the City limits. In Fiscal Year 2018-19, property taxes generated \$44,204,121, are expected to have generated \$45,884,386 for Fiscal Year 2019-20 and are projected to generate \$47,042,828 in Fiscal Year 2020-21. Property taxes are the General Fund’s largest revenue source. See “Property Taxes” below for additional information relating to the property taxes and the assessed valuation of property located in the City. Property Tax revenues for Fiscal Year 2019-20 and future years may be impacted by the COVID-19 Pandemic. For additional discussion, see “PROPERTY TAXES.”

Sales and Use Taxes. The City receives a 1% share of all taxable sales generated within its borders. In Fiscal Year 2018-19, sales and use taxes generated \$23,411,301, and are expected to have generated \$22,111,203 for Fiscal Year 2019-20 and are projected to generate \$21,338,510 in Fiscal Year 2020-21. Sales taxes are the General Fund's second largest revenue source. Sales and Use Tax revenues for Fiscal Year 2019-20 and 2020-21 are likely to be significantly impacted by the COVID-19 Pandemic. For additional discussion, see "SALES AND USE TAXES."

Transient Occupancy Taxes. The City imposes a transient occupancy tax on all hotels in the City. The current rate is 10% of the rent charged. In Fiscal Year 2018-19, transient occupancy taxes generated \$3,328,337, and are expected to have generated \$2,321,925 for Fiscal Year 2019-20 and are projected to generate \$2,437,332 in Fiscal Year 2020-21. Transient Occupancy Tax revenues for Fiscal Year 2019-20 and 2020-21 are likely to be significantly impacted by the COVID-19 Pandemic.

The City anticipates that it will experience declines in sales tax, transient occupancy tax, and other general fund revenue sources in the coming months, or longer, as a result of the COVID-19 (coronavirus) Pandemic. See the caption "RISK FACTORS—COVID-19 Pandemic."

Property Taxes

Under Proposition 13, an amendment to the California Constitution adopted in 1978 that added Article XIII A of the California Constitution, the county assessor's valuation of real property is established as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, as the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than that of similar properties more recently sold and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

Local agencies and schools will share the growth of "base" sources from all tax rate areas in the County. Each year's growth allocation becomes part of each local agency's allocation in the following year. The availability of revenue from growth in the tax bases in such tax rate areas may be affected by the existence of redevelopment agencies (including their successor agencies) which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is supplemented by the State.

For assessment and tax collection purposes, property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the SBE is commonly identified for taxation purposes as “utility” property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to any delinquent payment. Property on the secured roll, with respect to which taxes are delinquent, becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs and prepayment penalty of one and one-half percent per month to the time of prepayment. If taxes are unpaid for a period of five years or more, the property is subject to sale by the county treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of one and one-half percent per month attaches to such taxes beginning the second month after the delinquent date, and on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing 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 lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and 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 assessed to the delinquent taxpayer.

No Teeter Plan

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in section 4701, *et seq.* of the California Revenue and Taxation Code. The Teeter Plan guarantees distribution of 100% of the general taxes levied to the taxing entities within the County, with the County retaining all penalties and interest penalties affixed upon delinquent properties and redemptions of subsequent collections, but the City does not participate in the County’s Teeter Plan. The City’s property tax revenues reflect both reduced property tax revenue from uncollected taxes and increased revenue from the subsequent receipt of delinquent taxes, interest and penalty payments. Delinquencies in the payment of property taxes could have an adverse effect on the City’s ability to make timely debt service payment on the Bonds.

On May 6, 2020, the Governor issued Executive Order N-61-20, which suspended through May 6, 2021 the imposition of penalties, costs, and interest on overdue property taxes where the taxes owed were not delinquent prior to the March 4, 2020 declaration of a state of emergency and the taxpayer demonstrates to the tax collector. As a result, the City’s ability to collect property taxes and penalties and interest on delinquent property taxes has been effected by the COVID-19 Pandemic. For addition information on the COVID-19 Pandemic and its effects on property taxes, see “Assessed Value - Potential Impacts of COVID-19 (Coronavirus) Pandemic on Property Tax Revenues” and “RISK FACTORS – The COVID-19 Pandemic.” The City cannot predict when the state’s restrictions related to the collection property tax will be lifted.

Assessed Value

The assessed valuation of property in the City is established by the County Assessor, except for public utility property which is assessed by the SBE. Assessed valuations are reported at 100% of the “full value” of the property, as defined in Article XIII A of the California Constitution.

Certain classes of property, such as churches, colleges, not-for-profit hospitals and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. Property taxes allocated to the City are collected by the County at the same time and on the same tax rolls as are county and special district taxes. The valuation of secured property by the County Assessor is established as of January 1 and is subsequently equalized in September of each year.

The table below shows the assessed valuation of taxable property in the City for the most recent fiscal years.

TABLE 5
CITY OF FULLERTON
HISTORIC ASSESSED VALUATIONS
Fiscal Years 2011-12 to 2020-21

Fiscal Year	Local Secured	Utility	Unsecured	Total Assessed Valuation	% Change
2011-12	\$14,024,754,248	\$241,140	\$767,035,767	\$14,792,031,155	n/a
2012-13	14,192,848,460	160,556	727,344,736	14,920,353,752	0.87%
2013-14	14,675,085,343	160,556	683,791,401	15,359,037,300	2.94
2014-15	15,596,260,600	160,556	936,123,045	16,532,544,201	7.64
2015-16	16,457,185,272	160,556	856,826,470	17,314,172,298	4.73
2016-17	17,163,571,999	160,556	811,889,230	17,975,621,785	3.82
2017-18	18,121,397,727	160,556	786,392,956	18,907,951,239	5.19
2018-19	19,174,976,955	421,785	840,356,611	20,015,755,351	5.86
2019-20	20,177,009,630	1,421,834	883,633,667	21,062,065,131	5.23
2020-21	21,619,172,891	1,421,834	880,305,227	22,500,899,952	6.83

Source: California Municipal Statistics, Inc.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the City's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

Appeals of Assessed Valuation; Blanket Reductions of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must apply to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects

to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition to the above-described taxpayer appeals, county assessors may independently reduce assessed valuations based on changes in the market value of property, or for other factors such as the complete or partial destruction of taxable property caused by natural or man-made disasters such as earthquakes, floods, fire, drought or toxic contamination pursuant to relevant provisions of the State Constitution.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. However, see "RISK FACTORS—Split Roll Initiatives."

Risk of Decline in Property Values; Fire; Earthquake Risk. Property values could be reduced by factors beyond the City's control, including fire, earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the City in the future.

Assembly Bill 102. On June 27, 2017, the Governor of the State (the "Governor") signed into law Assembly Bill 102 ("AB 102"). AB 102 restructured the functions of the SBE and created two new separate agencies: (i) the California Department of Tax and Fee Administration, and (ii) the Office of Tax Appeals. Under AB 102, the California Department of Tax and Fee Administration took over programs previously in the SBE Property Tax Department, such as the Tax Area Services Section, which is responsible for maintaining all property tax-rate area maps and for maintaining special revenue district boundaries. Under AB 102, the SBE continues to perform the duties assigned by the State Constitution related to property taxes, however, effective January 1, 2018, the SBE will only hear appeals related to the programs that it constitutionally administers and the Office of Tax Appeals will hear appeals on all other taxes and fee matters, such as sales and use tax and other special taxes and fees. AB 102 obligates the Office of Tax Appeals to adopt regulations as necessary to carry out its duties, powers, and responsibilities. No assurances can be given as to the effect of such regulations on the appeals process or on the assessed valuation of property within the City.

State-Assessed Property. Under the Constitution, the SBE assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the City to non-utility companies will increase the assessed value of property in the City, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the City to a State-assessed utility will have the opposite effect, generally reducing the assessed value in the City as the value is shared among the other jurisdictions in the County. The City is unable to predict future transfers of State-assessed property in the City and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the City.

Assessed Valuation by Land Use. The following table gives a distribution of taxable real property located in the City by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

TABLE 6
CITY OF FULLERTON
ASSESSED VALUATION AND PARCELS BY LAND USE

	FY2020-21 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
<u>Non-Residential:</u>				
Rural/Undeveloped	\$ 6,904,300	0.03%	23	0.07%
Commercial/Office	2,909,247,264	13.46	1,330	3.94
Industrial	1,993,342,875	9.22	537	1.59
Government/Social/Institutional	206,805	0.00	99	0.29
Miscellaneous	28,330,452	0.13	31	0.09
Subtotal Non-Residential	<u>\$4,938,031,696</u>	<u>22.84%</u>	<u>2,020</u>	<u>5.98%</u>
<u>Residential:</u>				
Single Family Residence	\$12,725,061,889	58.86	25,544	75.65
Condominium/Townhouse	1,521,791,895	7.04	4,582	13.57
Mobile Home	12,860,131	0.06	432	1.28
2+ Residential Units/Apartments	2,421,427,280	11.20	1,190	3.52
Subtotal Residential	<u>\$16,681,141,195</u>	<u>77.16</u>	<u>31,748</u>	<u>94.02</u>
 Total	 <u>\$21,619,172,891</u>	 <u>100.00%</u>	 <u>33,768</u>	 <u>100.00%</u>

Source: California Municipal Statistics, Inc.

(1) Total secured assessed valuation, excluding tax-exempt property.

Assessed Valuation of Single-Family Homes. The following table focuses on single-family residential properties only, which comprise approximately 75.65% of the assessed value of taxable property in the City.

TABLE 7
CITY OF FULLERTON
PER PARCEL - ASSESSED VALUATION OF SINGLE-FAMILY HOMES

	No. of Parcels	FY2020-21 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	25,544	\$12,725,061,889	\$498,162	\$452,985

FY2020-21 Assessed Valuation	No. of Parcels ⁽¹⁾	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$49,999	291	1.139%	1.139%	\$9,701,763	0.076%	0.076%
\$50,000 - \$99,999	2,097	8.209	9.349	153,218,056	1.204	1.280
\$100,000 - \$149,999	1,157	4.529	13.878	142,792,279	1.122	2.402
\$150,000 - \$199,999	1,126	4.408	18.286	199,199,302	1.565	3.968
\$200,000 - \$249,999	1,605	6.283	24.569	364,137,113	2.862	6.829
\$250,000 - \$299,999	1,686	6.600	31.170	463,251,026	3.640	10.470
\$300,000 - \$349,999	1,630	6.381	37.551	528,397,715	4.152	14.622
\$350,000 - \$399,999	1,532	5.997	43.548	573,734,608	4.509	19.131
\$400,000 - \$449,999	1,549	6.064	49.612	657,535,533	5.167	24.298
\$450,000 - \$499,999	1,508	5.904	55.516	715,919,355	5.626	29.924
\$500,000 - \$549,999	1,466	5.739	61.255	768,526,859	6.039	35.964
\$550,000 - \$599,999	1,528	5.982	67.237	878,897,236	6.907	42.871
\$600,000 - \$649,999	1,321	5.171	72.408	823,630,406	6.473	49.343
\$650,000 - \$699,999	1,078	4.220	76.629	727,482,861	5.717	55.060
\$700,000 - \$749,999	1,012	3.962	80.590	732,469,174	5.756	60.816
\$750,000 - \$799,999	931	3.645	84.235	722,337,306	5.676	66.493
\$800,000 - \$849,999	865	3.386	87.621	712,951,071	5.603	72.095
\$850,000 - \$899,999	669	2.619	90.240	584,456,301	4.593	76.688
\$900,000 - \$949,999	511	2.000	92.241	472,449,987	3.713	80.401
\$950,000 - \$999,999	335	1.311	93.552	326,035,272	2.562	82.963
\$1,000,000 and greater	1,647	6.448	100.000	2,167,938,666	17.037	100.000
Total	25,544	100.000%		\$12,725,061,889	100.000%	

Source: California Municipal Statistics, Inc.

(1) Improved single-family residential parcels. Excludes condominiums and parcels with multiple family units.

Principal Taxpayers. Based on Fiscal Year 2020-21 locally assessed taxable valuations, the top twenty taxable property owners in the City represent approximately 7.82% of the total Fiscal Year 2020-21 taxable value.

The following table shows the 20 largest owners of taxable property in the City as determined by secured assessed valuation in Fiscal Year 2020-21.

**TABLE 8
CITY OF FULLERTON
LARGEST LOCAL SECURED PROPERTY TAXPAYERS**

	Property Owner	Primary Land Use	FY2020-21 Assessed Valuation	% of Total ⁽¹⁾
1.	GLC Fullerton LLC	Industrial	\$ 206,097,851	0.95%
2.	Aspect Acquisition LLC	Apartments	136,292,400	0.63
3.	Prologis USLV SubREIT 3 LLC	Industrial	126,122,999	0.58
4.	FHF I Amerige Pointe LLC	Apartments	122,038,920	0.56
5.	Advanced Group 16-114	Apartments	105,059,592	0.49
6.	University House Fullerton LLC	Apartments	95,089,951	0.44
7.	Corecare III	Assisted Living	92,872,332	0.43
8.	RREEF America REIT II Corp	Industrial	92,282,224	0.43
9.	Fullerton Luxury Rentals LLC	Apartments	82,383,258	0.38
10.	SFERS Real Estate Corp RR	Industrial	68,273,620	0.32
11.	ROIC Fullerton Crossroads	Shopping Center	66,585,599	0.31
12.	PK I Fullerton Town Center LP	Shopping Center	62,966,535	0.29
13.	BRE-FMCA LLC	Apartments	62,197,529	0.29
14.	458 East Lambert LLC	Industrial	60,441,657	0.28
15.	Fullerton Metro Center LLC	Shopping Center	58,280,629	0.27
16.	Prologis USLV NewCA 7 LLC	Industrial	54,640,160	0.25
17.	Malvern Property LLC	Shopping Center	53,352,397	0.25
18.	Essex Haver Hill LP	Apartments	51,855,860	0.24
19.	Hughes Drive Acquisitions	Office Building	48,284,964	0.22
20.	OC Nutwood 2010 LLC	Apartments	44,475,737	0.21
	Total Top 20		<u>\$1,689,594,214</u>	<u>7.82%</u>

Source: California Municipal Statistics, Inc.

(1) 2020-21 Local Secured Assessed Valuation: \$21,619,172,891.

Tax Levies and Delinquencies. Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

The following table sets forth the secured tax charges and delinquencies for the most recent fiscal years.

TABLE 9
CITY OF FULLERTON
SECURED TAX CHARGES AND DELINQUENCIES

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amt. Del. June 30	% Del. June 30
2010-11	\$19,555,933.73	\$287,725.25	1.47%
2011-12	19,796,510.05	265,262.73	1.34
2012-13	19,978,708.17	191,824.38	0.96
2013-14	20,444,653.96	151,425.02	0.74
2014-15	21,759,590.20	151,001.56	0.69
2015-16	22,974,457.32	157,296.74	0.68
2016-17	23,839,525.78	166,609.59	0.70
2017-18	24,908,566.39	134,553.17	0.54
2018-19	26,273,795.64	173,214.79	0.66
2019-20	27,520,291.59	232,296.67	0.84

Source: California Municipal Statistics, Inc.

(1) 1% General Fund apportionment

Potential Impacts of COVID-19 (Coronavirus) Pandemic on Property Tax Revenues. In response to the COVID-19 outbreak described under the caption “RISK FACTORS—COVID-19 Pandemic,” the Governor of California signed Executive Order N-61-20 (“Order N-61-20”). Under Order N-61-20, certain provisions of the State Revenue and Taxation Code are suspended until May 6, 2021 to the extent said provisions require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent. Said penalties, costs and interest shall be cancelled under the conditions provided for in Order N-61-20, including if the property is residential real property occupied by the taxpayer or the real property qualifies as a small business under certain State laws, the taxes were not delinquent prior to March 4, 2020, the taxpayer files a claim for relief with the tax collector, and the taxpayer demonstrates economic hardship or other circumstances that have arisen due to the COVID-19 pandemic or due to a local, state, or federal governmental response to COVID-19. The impacts the waiver of penalties, costs or interest on delinquent property taxes under the circumstances described in Order N-61-20 have on property tax revenues are unknown at this time.

The City cannot predict whether the County or the state of California will further relax their positions with respect to late payment penalties, which could result in significant property tax delinquencies. The waiver of late payment penalties and resulting property tax delinquencies could have a material adverse impact on the timely payment of property taxes with respect to property in the City. The COVID-19 outbreak may also result in increased property tax assessment appeals which could reduce property tax revenue growth in future years. See the caption “RISK FACTORS— COVID-19 (Coronavirus) Pandemic.”

Sales and Use Taxes

A sales tax is imposed on the privilege of consuming personal property in California. California does not tax services. The tax rate is established by the State Legislature, and is presently 7.25%, statewide (of

which 1% is paid to the City). In addition, many of California’s cities, counties, districts and communities have special taxing jurisdiction to impose a transaction (sales) or use tax. These so-called district taxes increase the tax rate in a particular area by adding the local option tax to the statewide tax. While more than one district tax may be in effect for a particular location, California counties, municipalities, and districts are allowed to increase the sales tax in specific jurisdictions up to a total of 10.25%.

**TABLE 10
CITY OF FULLERTON
CURRENT SALES AND USE TAX RATES**

Component	Tax Rate
State General Fund	6.00%
Orange County Local Transportation Authority	0.75
City of Fullerton Portion	1.00
Total	7.75%

Source: City of Fullerton

Proposed Measure S. On November 3, 2020 the voters of the City will decide whether to approve Measure S, a 1.25% transactions and use tax. If approved, Measure S is estimated to generate approximately \$25 million dollars annually. Measure S would remain in effect unless terminated by the City’s voters. Measure S revenues would be available to the City’s general fund for any lawful purpose. Measure S would be subject to mandatory annual independent financial audits and citizen oversight. If approved, Measure S would increase the combined sales and use tax rate in the City from 7.75% to 9.00%.

The State’s Department of Tax and Fee Administration actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis.

Effects of COVID-19 Pandemic on Sales Tax Collections. The City anticipates that sales tax revenues will be immediately impacted by the COVID-19 Pandemic. “Stay at home” orders issued by State and County authorities have impacted consumers’ ability (and desire) to go out shopping or to dine out. Similar orders closing bars and prohibiting “dine in” service negatively impact local restaurants. The City’s sales tax receipts for Fiscal Years 2019-20 and 2020-21 are expected to decline from prior levels. The City estimates that sales tax collections for Fiscal Year 2020-21 could see a reduction of 9% from Fiscal Year 2018-19 collections, the last full year prior to the COVID-19 Pandemic.

On March 30, 2020, the Governor signed an executive order allowing the California Department of Tax and Fee Administration to offer a 90-day extension for sales, use and transactions tax returns and tax payment for all businesses filing a return for less than \$1 million tax liability. In addition, on April 2, 2020, the Governor announced a one-year sales tax deferral for small businesses limited to \$50,000. See the caption “RISK FACTORS—COVID-19 Pandemic.”

Other Sources of General Fund Revenues

In addition, the City receives the following General Fund revenues:

Licenses and Permits. The City charges certain permits, licenses and fees for the cost recovery of providing current planning, building inspection, recreation and other municipal services.

Charges for Services. The City charges various fees and charges for services provided, including development and inspection fees, paramedic fees, charges for public works, police, fire, library and parks and recreation services. By law, the City may not charge more than the cost of providing the service.

Fines, Forfeitures and Penalties. These revenues include parking citations and other fines for municipal code violations.

The following table illustrates other revenue sources for the four most recent fiscal years and the budgeted data for the current fiscal year:

**TABLE 11
CITY OF FULLERTON
OTHER REVENUE SOURCES**

	Fiscal Year				
	2016-17 Audited	2017-18 Audited	2018-19 Audited	2019-20 Unaudited	2020-21 Budgeted
Licenses and permits	\$ 2,036,555	\$ 2,283,875	\$ 2,783,564	\$ 2,120,785	\$ 2,215,930
Intergovernmental	601,135	1,086,121	918,441	845,972	636,000
Charges for services	7,872,914	7,107,001	9,340,500	9,513,599	10,160,027
Investment income	3,325,629	3,716,814	6,171,974	4,295,478	4,814,572
Fines, forfeitures, and penalties	1,173,473	1,399,068	1,415,167	1,002,502	1,687,540
Miscellaneous	1,592,017	1,122,221	1,502,966	737,111	490,175
TOTAL OTHER REVENUE SOURCES	\$16,601,723	\$16,715,100	\$22,132,612	\$18,515,447	20,004,244

Source: City of Fullerton Finance Department.

Impact of COVID-19 Pandemic on Other Revenue Sources. Fiscal Years 2019-20 and 2020-21 revenues from charges for services, licenses and permits and fines and forfeitures may be delayed or reduced as compared to prior years. The City has closed many of its Park & Recreation and Library facilities and cancelled some of its programs in Fiscal Year 2019-20. The City plans to slowly re-instate these programs and classes in Fiscal Year 2020-21 which will result in reduced revenue in charges for services. Tenants not paying their monthly lease and rent payments as a result of COVID-19 Pandemic have also negatively affected City revenues. Planning and building activities are still taking place in the City on reduced scale compared to the level of prior years but the City anticipates that revenues generated for these activities will recover in Fiscal Year 2020-21. See also “General Fund Budget,” herein.

Reliance on State Budget

The City does not rely on the State for a material amount of revenues.

The economic uncertainty caused by the COVID-19 outbreak will significantly affect the State’s fiscal outlook, including lower capital gains-related tax revenue due to the volatility in the financial markets, the likelihood that a recession is forthcoming due to pullback in activity across wide swaths of the economy, and substantially increased expenditures related to fighting the COVID-19 Pandemic. The City cannot predict the short or long-term impacts that the COVID-19 Pandemic will have on global, State-wide and local economies, which may impact City operations and local property values.

There can be no assurance that future State budget difficulties will not adversely affect the City's revenues or its ability to pay debt service on the Bonds. See "STATE BUDGET INFORMATION."

OTHER FINANCIAL INFORMATION

Labor Relations

As of September 3, 2020, 485 permanent active City employees are covered by negotiated agreements as detailed in the table below.

TABLE 12
CITY OF FULLERTON
NEGOTIATED EMPLOYEE AGREEMENTS

Bargaining Unit	Contract Expiration Date	Number of Employees
Fullerton Police Management Association	6/30/21	5
Fullerton Police Officers' Association - Safety	6/30/22	116
Fullerton Police Officers' Association - Dispatchers	6/30/22	18
Fullerton Fire Management Association	6/30/21	4
Fullerton Fire Firefighters' Association	6/30/21	70
Fullerton Management Association	6/30/21	39
Fullerton Municipal Employees Federation	6/30/21	233
Total		<u>485</u>

Source: City of Fullerton

For a discussion of anticipated staffing changes during Fiscal Year 2020-21, see "General Fund Budget" herein.

Risk Management

Self-Insurance Program. The City is exposed to various risks of loss related to its operations, including losses associated with errors and omissions, injuries to employees and members of the public; and natural disasters. The City combines self-insurance with commercial insurance and reinsurance policies to protect against the exposure to financial or property losses and to employee workers' compensation losses.

On September 3, 1991 the City Council approved the City's membership in the Independent Cities Risk Management Authority ("ICRMA"), a joint powers authority. As a member of ICRMA, the City has obtained excess liability coverage and other group purchase coverages. The upper limit of the ICRMA layer of liability coverage for Fiscal Year 2020-21 is \$35,000,000 in excess of the City's \$2,000,000 per claim self-insured retention level and a separate commercial insurance layer of coverage for losses in the range of \$2,000,000 to \$6,000,000. Losses above the \$35,000,000 limit of insurance are self-insured.

Additionally, the City purchases excess workers' compensation coverage with limits equal to statutory limits in excess of the City's self-insured retentions of \$750,000 for non-safety personnel and \$1,000,000 for safety personnel per claim.

The City utilizes the services of a contract claims administrator for administration of the liability and workers' compensation programs.

Settlements have not exceeded coverages for each of the past three fiscal years.

Unemployment Liability Claims. On February 15, 1978, the City initiated a program of self-insurance for unemployment liability claims. By this action the City will pay all claims based on the individual reimbursement account method as provided by the State. Expenditures are recognized when reimbursements are made to the State.

For additional information about the City's Risk Management, see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019, Note 16.

Employee Retirement Plans

The information set forth below regarding the California Public Employees' Retirement System ("CalPERS") program, other than the information provided by the City regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the City or the Underwriter.

Plan Description. All qualified permanent and probationary employees are eligible to participate in the City's Safety Plan (police and fire) and Miscellaneous Plan (all others), agent multiple employer defined benefit pension plans administered by the CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Employees Covered. At June 30, 2019, the following employees were covered by the benefit terms for each Plan.

**TABLE 13
CITY OF FULLERTON
COVERED EMPLOYEES**

	<u>Miscellaneous</u>	<u>Safety</u>
Active employees	363	203
Transferred employees	301	70
Terminated employees	192	39
Retired employees and beneficiaries	621	423
Total	<u>1,477</u>	<u>735</u>

Source: City of Fullerton 2018-19 CAFR.

Contributions. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The City's contributions to its Miscellaneous and Safety Plans for the past three years is summarized in the following table.

**TABLE 14
CITY OF FULLERTON
HISTORICAL PENSION CONTRIBUTIONS**

Fiscal Year Ending June 30,	Miscellaneous Plan	Safety Plans	Total Contributions
2017	\$ 4,352,761	\$ 11,291,024	\$ 15,643,785
2018	3,880,635	10,729,928	14,610,563
2019	4,795,120	12,126,025	16,921,145

Source: City of Fullerton 2017-19 CAFRs.

Changes in the Net Pension Liability. As of June 30, 2019, the City reported a net pension liability for its proportionate share of the net pension liability of \$71,298,806 for the Miscellaneous Plan and \$171,538,936 for the Safety Plan.

The City's net pension liability for the Plans is measured as the proportionate share of the net pension liabilities. The net pension liabilities of the Plans are measured as of June 30, 2019, and the total pension liabilities for the Plans used to calculate the net pension liabilities were determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. The City's proportion of the net pension liabilities was based on a projection of the City's long-term share of

contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions. For the year ended June 30, 2019, the City recognized pension expense of \$9,931,980 for the Miscellaneous Plan and \$20,354,399 for the Safety Plans, respectively. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

TABLE 15
CITY OF FULLERTON
DEFERRED OUTFLOWS/INFLOWS OF RESOURCES
FISCAL YEAR 2018-19

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 4,795,120	\$ -	\$ 12,126,025	-
Diff. btw. actual and expected experience	-	(998,191)	1,886,725	(894,316)
Changes in assumptions	4,507,862	(709,932)	12,806,614	(1,409,005)
Diff. btw. projected and actual earnings on investment	708,537	-	918,093	-
Total	10,011,519	(1,708,123)	27,737,457	(2,303,321)

Source: City of Fullerton 2018-19 CAFR.

For information concerning the City's pension obligations, including descriptions of the actuarial methods and assumptions, and an explanation of the discount rate used, please see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019, Note 14.

Funded Status. The following table sets forth a summary of the funding progress for the City's Miscellaneous and Safety Plans for the three most recent actuarial valuation dates.

TABLE 16
CITY OF FULLERTON
HISTORICAL PENSION FUNDING PROGRESS

Date June 30,	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll
Miscellaneous Plan					
2017	\$ 262,839,748	\$ 199,133,350	\$ 63,706,398	75.76%	\$ 24,160,809
2018	286,811,198	213,822,106	72,989,092	74.55%	25,506,709
2019	294,022,442	222,723,636	71,298,806	75.75%	25,445,697
Safety Plans					
2017	\$ 439,810,169	\$ 290,346,473	\$ 149,463,696	66.02%	\$ 22,949,957
2018	480,774,890	311,652,471	169,122,419	64.82%	23,799,967
2019	496,155,356	324,616,420	171,538,936	65.43%	24,764,981

Source: City of Fullerton 2017-19 CAFRs .

Coronavirus Impacts on Pension Obligations. Recent investment losses in the CalPERS portfolio as a result of the general market downturn caused by the COVID-19 Pandemic will likely result in increases in the City's required contributions in future years. The City cannot predict the level of such increases, if any.

As of June 30, 2020, CalPERS estimated that the rate of return for its investment portfolio for the fiscal year was 4.7%. Investment returns below 7% create additional liabilities for public agencies, including the City. Any increase in the unfunded actuarial liability created by the Fiscal Year 2019-20 rate of return will begin affecting the City's UAL costs starting in Fiscal Year 2021-22. Pursuant to CalPERS methodology, the amounts payable will increase annually during the first five years and then level out for the remaining 15 years over which to amortize investment losses.

Actions Taken by CalPERS. At its April 17, 2013, meeting, CalPERS' Board of Administration (the "Board of Administration") approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. As a result, CalPERS now employs an amortization and smoothing policy that will pay for all gains and losses over a 20-year period with a five-year ramp-up, and five-year ramp-down, period. The new amortization and smoothing policy was used for the first time in the June 30, 2013 actuarial valuations in setting employer contribution rates for Fiscal Year 2015-16.

On February 18, 2014, the Board of Administration approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The Board of Administration also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60, which will increase costs for those groups. As a result of these changes, rates increased beginning in Fiscal Year 2016-17 (based on the June 30, 2014 valuation) with full impact in Fiscal Year 2020-21.

On November 18, 2015, the Board of Administration adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, which at that time was 7.5%, by at least four percentage points. CalPERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through CalPERS' web site at the following website address: <https://www.calpers.ca.gov/page/newsroom/calpers-news/2015/adopts-funding-risk-mitigation-policy>.

The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City or the Underwriter and is not incorporated in this Official Statement by reference.

On December 21, 2016, the Board of Administration voted to lower its discount rate from the current 7.5% to 7.0% over the next three years according to the following schedule.

Fiscal Year	Discount Rate
2017-18	7.375%
2018-19	7.250
2019-20	7.000

For public agencies like the City, the 7.0% discount rate took effect on July 1, 2019. Lowering the discount rate means employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. The three-year reduction of the discount rate will result in average employer rate increases of about 1 percent to 3 percent of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2 percent to 5 percent increase for most safety plans. Additionally, many CalPERS employers will see a 30 to 40 percent increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring the pension fund to a fully funded status over the long-term.

CalPERS Amortization Period Reform. On February 13, 2018 the CalPERS Board voted to shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years for new pension liabilities. The new 20-year amortization period begins with new gains or losses accrued starting with the June 30, 2019 actuarial valuations. The first payments on the new 20-year amortization schedule will take place in 2021.

A shorter amortization period will increase annual Unfunded Accrued Liability ("UAL") contributions for cities that participate in CalPERS so long as CalPERS remains underfunded. The shortened amortization period will also lead to reductions of periods of negative amortization of the UAL, interest cost savings, and faster recoveries of funded status after market downturns.

Cities that participate in CalPERS will also see additional volatility in their future UAL contributions due to market performance as gains or losses will be amortized faster under the new amortization period.

The City cannot currently estimate the impact the shorter amortization period will have on its required contributions for its Miscellaneous and Safety Plans.

Defined Contribution Pension Plan

For all of its part-time employees who are not eligible for coverage under the CalPERS pension plan, the City provides pension benefits through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered as part of the City's 457 plan.

All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5 percent to a retirement plan, and City Council resolved to match the employees' contributions up to 3.75 percent. The City's contributions for each employee (and interest earned by the accounts) are fully vested immediately. For the year ended June 30, 2019 the City's payroll covered by the plan was \$128,788. The City made employer contributions in the amount of \$64,394.

Other Post-Employments Benefits

Plan Description. The City administers a single-employer defined benefit healthcare plan which provides medical, dental, and vision insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. Employees are eligible for retiree health benefits if they retire from the City on or after age 50 with at least 10 years of service. If hired before January 1, 2012 and fully vested with 5 years of service, employees in the Executive, Management and Confidential Units may retire with reduced health benefits. Employees with a disability at any age with any service and are eligible for a CalPERS pension are eligible for health benefits.

Retirees and their spouses may be eligible for City contribution towards medical premiums through age 65. The City sponsored medical plans currently include Kaiser, Cigna Open Access Plan and Cigna Select and Full Network plans. Delta Dental is the current provider for dental insurance. Vision Service Plan is the current provider for vision insurance. Retirees represented by the Fullerton Fire Association and Fullerton Fire Management Association are eligible for coverage through medical benefit plans offered by the CalPERS.

For employees hired prior to January 1, 2012, the City pays an amount equal to 100% of single party contribution for a retiree with 20+ years of service. The City pays 50% of single party contribution for a retiree with 5 to 9 years of service. For employees hired after January 1, 2012, the City contributes \$200 per month for a retiree with 20+ years of service; and \$100 per month for a retiree with 10 to 19 years of service.

Once retirees are eligible for Medicare or reach age 65, the City's contribution towards retiree medical insurance terminates. However, for those retirees and their spouses under the CalPERS health plans, the City will continue to pay the required Public Employees' Medical and Hospital Care Act minimum contribution after age 65. For Fire and Fire Management retirees and their surviving spouses who elect to continue coverage in the CalPERS medical plan, the City contribution towards retiree medical insurance does not end after retiree reaches age 65.

The City offers dental and vision benefits at the current employee rate for retirees at their own cost.

Employees Covered. Membership of the plan consisted of 187 retirees and beneficiaries receiving benefits, 0 inactive members entitled to but not yet receiving benefits and 708 active plan members at June 30, 2018, the date of the latest actuarial valuation.

Funding Policy. The contribution requirements for plan members and the City are established by an MOU as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements.

Changes In Net OPEB Liability. The following table shows the changes in the City’s net OPEB obligation to the Plan:

TABLE 17
CITY OF FULLERTON
CHANGE IN NET OPEB LIABILITY
Fiscal Year 2018-19

Service cost	\$ 1,184,811
Interest on OPEB liability	1,324,045
Dif. btw. actual and expected experience	(7,029,124)
Dif. btw. actual and expected ROI	(1,842)
Changes in assumptions	-
Employer contributions	(1,388,227)
Investment income	(1,844)
Net changes	(5,912,181)
Net OPEB obligation, beginning of the year	35,970,833
Net OPEB obligation, end of the year	<u>\$30,058,652</u>

Source: City of Fullerton 2018-19 CAFR.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

For information concerning the City’s OPEB obligations, including descriptions of the actuarial methods and assumptions, please see APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2019, Note 15.

Debt Obligations

Short-Term General Fund-Secured Obligations. The City has no outstanding short-term obligations secured by its general fund.

Long-Term General Fund-Secured Obligations. On December 22, 2010, the City of Fullerton Public Financing Authority issued its \$2,705,000 2010 Lease Revenue Bonds, Series A (the “2010A Bonds”), and its \$1,730,000 City of Fullerton Public Financing Authority issued its \$2,705,000 2010 Lease Revenue Bonds, Series B (the “2010B Bonds”). The 2010A Bonds are currently outstanding in the principal amount of \$1,740,000 and will mature on May 1, 2031. The 2010B Bonds have matured.

On September 5, 2013, the City issued the 2013 Bonds. The 2013 Bonds are currently outstanding in the principal amount of \$5,320,000. The Refunded 2013 Bonds will be defeased through the issuance of the Bonds.

The following table shows the City's payment obligations with respect to the 2010A Bonds and the 2013 Bonds.

Fiscal Year Ending June 30	2010A Bonds	2013 Bonds	Total
2021	\$ 259,850	\$ 587,948	\$ 847,798
2022	260,163	586,815	846,978
2023	254,700	589,215	843,915
2024	248,850	585,190	834,040
2025	242,613	587,850	830,463
2026	235,988	589,490	825,478
2027	233,975	585,110	819,085
2028	226,188	584,965	811,153
2029	218,013	588,800	806,813
2030	214,450	587,400	801,850
2031	210,113	589,500	799,613
2032	—	589,800	589,800
2033	—	588,300	588,300
Totals	<u>\$2,604,903</u>	<u>\$7,640,383</u>	<u>\$10,245,286</u>

General Obligation Bonds. The City has no outstanding general obligation bonds.

Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective October 1, 2020. The Debt Report is included for general information purposes only. Neither the City nor the Underwriter has reviewed the Debt Report for completeness or accuracy and neither the City nor the Underwriter makes any representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the City; (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the City; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 2.

TABLE 18
CITY OF FULLERTON
DIRECT AND OVERLAPPING BONDED DEBT
as of October 1, 2020

CITY OF FULLERTON

FY2020-21 Assessed Valuation: \$22,500,899,952

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable ⁽¹⁾</u>	<u>Debt 10/1/20</u>
Metropolitan Water District	.681%	\$ 219,486
North Orange County Joint Community College District	15.172	37,263,039
Brea-Olinda Unified School District	.830	53,859
Placentia-Yorba Linda Unified School District	5.610	12,078,691
Anaheim Union High School District District	0.016	42,569
Fullerton Joint Union High School District	51.284	98,383,226
Anaheim School District	.027	71,638
Buena Park School District	6.201	2,613,388
Fullerton School District	99.822	18,869,622
La Habra City School District	7.832	1,924,803
Fullerton School District Community Facilities District No. 2000-1	100.000	665,000
Fullerton School District Community Facilities District No. 2001-1	100.000	10,755,000
City of Fullerton Community Facilities District No. 1	100.000	14,235,000
City of Fullerton Community Facilities District No. 2	100.000	<u>7,180,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		204,355,321
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Orange County General Fund Obligations	3.366	13,017,837
Orange County Pension Obligation Bonds	3.366	11,728,464
Orange County Board of Education Certificates of Participation	3.366	435,224
North Orange County Regional Occupation Program Certificates of Participation	15.608	1,340,727
Brea-Olinda Unified School District Certificates of Participation	.830	99,019
Placentia-Yorba Linda Unified School District Certificates of Participation	5.610	4,890,537
Anaheim Union High School District Certificates of Participation	.016	5,057
Fullerton Joint Union High School District Certificates of Participation	51.284	8,859,311
Fullerton School District Certificates of Participation	99.822	4,057,764
City of Fullerton Lease Revenue Bonds	100.000	1,740,000 ⁽²⁾
City of Fullerton Judgment Obligation Bonds	100.000	<u>5,320,000</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		51,493,940
<u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Brea Redevelopment Successor Agency	3.325-3.721	3,601,306
Fullerton Redevelopment Successor Agency	100.000	<u>50,110,000</u>
TOTAL OVERLAPPING TAX INCREMENT DEBT		53,711,306
COMBINED TOTAL DEBT		309,560,567 ⁽³⁾

Ratios to 2020-21 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 0.91%
Gross Combined Direct Debt (\$7,060,000) 0.03%
Gross Combined Total Debt 1.38%

Ratios to Redevelopment Incremental Valuation (\$3,249,847,205):

Total Overlapping Tax Increment Debt 1.65%

Source: California Municipal Statistics, Inc.

(1) Based on FY2019-20 Ratios.

(2) Excludes Bonds to be sold.

(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
Qualified Zone Academy Bonds are included based on principal due at maturity.

INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Trust Agreement.

Funds held by the City are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the Finance Director and the City Treasurer as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City has never invested in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX D—CITY OF FULLERTON INVESTMENT POLICY.

STATE BUDGET INFORMATION

Information regarding the State Budget is regularly available at various State-maintained websites. The fiscal year 2020-21 State Budget further described below can be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the City, and neither the City nor the Underwriter takes responsibility for the continued accuracy of the 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 Process. Through the State budget process, the State enacts legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

The California State Treasurer's Internet home page at www.treasurer.ca.gov, under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget and the state budget process in greater detail.

The State Legislative Analyst's Office ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

2020-21 State Budget. On June 29, 2020, Governor Gavin Newsom signed the State budget for Fiscal Year 2020-21 (the "2020-21 Budget"). While the Governor's initial budget projections in January 2020 projected a budget surplus of \$5.6 billion, the 2020-21 Budget addresses a projected budget deficit of \$54.3 billion, representing a four-month swing of approximately \$60 billion caused primarily by the effects of the COVID-19 Pandemic. The 2020-21 Budget projects general fund revenues decreasing by \$9.8 billion compared to 2019-20 levels due in part to a combination of projected decreases of nearly 20% in income tax collections and sales and use tax collections. The 2020-21 Budget cuts general fund expenditures by \$13.0 billion compared to 2019-20 levels with substantial cuts to spending on K-12 and higher education, legislative, judicial, executive functions and general reductions in governmental operations.

To balance the 2020-21 Budget the following list of solutions has been adopted to close the \$54.3 billion gap:

Reserves. The 2020-21 Budget draws down \$8.8 billion in reserves from the State's Rainy Day Fund (\$7.8 billion), Safety Net Reserve Fund (\$450 million), and all of the funds in the Public School System Stabilization Account.

Potential Reductions and Deferrals. The 2020-21 Budget includes \$11.1 billion in reductions and deferrals that will be restored depending on the receipt of additional federal aid. If at least \$14 billion in federal funds are received by October 15, 2020, all reductions and deferrals will be restored. If the State receives a lesser amount, between \$2 billion and \$14 billion, reductions and deferrals will be partially restored. The reductions and deferrals include \$6.6 billion in deferred

spending on schools, approximately \$970 million in funding for the University of California and the California State University, \$2.8 billion for state employee compensation, \$150 million for courts and funding for child support administration, teacher training, moderate-income housing, and infrastructure to support infill housing.

Reliance on Federal Funds. The 2020-21 Budget relies on \$10.1 billion in federal funds, including \$8.1 billion already received as of June 30, 2020. This includes the enhanced Federal Medical Assistance Percentage, a portion of the State's Coronavirus Relief Fund allocation and funds provided for childcare programs.

Additional Revenue Generation. The 2020-21 Budget temporarily suspends the use of net operating losses for medium and large businesses and temporarily limits to \$5 million the amount of business incentive credits a taxpayer can use in any given tax year. These short-term limitations will generate \$4.4 billion in new revenues in the 2020-21 fiscal year.

Borrowing/Transfers/Deferrals. The 2020-21 Budget relies on \$9.3 billion in special fund borrowing and transfers, as well as other deferrals for K-14 schools. (Approximately \$900 million in additional special fund borrowing is associated with the reductions to employee compensation and is contained in the trigger.)

Cancelled Expansions, Updated Assumptions and Other Solutions. The remaining \$10.6 billion of solutions includes cancelling multiple program expansions and anticipating increased government efficiencies and the addition of higher ongoing revenues and lower ongoing expenses that projected.

Federal Stimulus Received to Date. The federal government has provided temporary federal funding to support the State's response to the COVID-19 pandemic. This funding was made available through four federal bills to help pay for emergency response, testing and contact tracing, health care, and financial relief to individuals, families, and businesses as well as state and local governments, including schools and higher education institutions. The following summarizes the four bills passed by Congress since March 2020:

Coronavirus Preparedness and Response Supplemental Appropriations Act (HR 6074). Provided emergency funding for public health and health care.

Families First Coronavirus Response Act (HR 6201). Provided some early assistance to families and temporarily increased the federal match for some state programs including Medi-Cal and In-Home Supportive Services. Federal funding was also extended for testing and testing-related services for uninsured individuals.

Coronavirus Aid, Relief, and Economic Security ("CARES") Act (HR 748). Broadened the assistance available to include funding for states, local governments, education, childcare, individuals and families. Funding was also expanded, extended, and supplemented for unemployment insurance benefits. Finally, this measure aided businesses, including the health care sector, small businesses, farmers, airports, and transit agencies.

Paycheck Protection Program and Health Care Enhancement Act (HR 266). Expanded funding for small businesses, hospitals, community and rural health centers, and substantially expanded funding for testing and contact tracing to support reopening businesses and the economy.

As of late June 2020, the State expected to receive over \$72 billion in assistance to state programs. Unemployment insurance represents about \$52 billion of this total. In addition, over \$142 billion in direct assistance is expected to be provided to individuals and families, small businesses, hospitals and providers, including rural and community clinics, higher education institutions and college students, local housing authorities, airports, farmers, and local government.

While the State anticipates future federal COVID-19 Pandemic funding relief beyond the four measures described above, should such additional relief not be forthcoming the State will face additional restrictions and deferrals.

For additional information regarding the 2020-21 Budget, please see the Department of Finance website at ebudget.ca.gov. The City can take no responsibility for the continued accuracy of the above-referenced internet address as for the or for the accuracy, completeness, or timeliness of information posted therein, and such information is not incorporated herein by reference.

The City cannot predict the impact that the 2020-21 Budget or subsequent budgets will have on its own finances and operations. Additionally, the City cannot predict the accuracy of any projections made in the State's 2020-21 Budget.

Future State Budgets. The City receives a portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City and other cities in the State.

In addition, the City cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the COVID-19 Pandemic and the associated economic downturn, over which the City has no control. See also "RISK FACTORS—Dependence on State for Certain Revenues."

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California 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 one percent of the full cash value except that additional taxes may be levied to pay debt service

on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a “purchase” or “change of ownership” triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or “severely disabled homeowners” who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence’s assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are “severely disabled,” to transfer the old residence’s assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of “new construction” certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of the property damaged or destroyed in a disaster.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property.

Section 4 of Article XIII A also provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

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

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual

appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is Fiscal Year 1978-79. Increases in appropriations by a governmental entity are also permitted (1) if financial responsibility for providing services is transferred to the governmental entity, or (2) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from (1) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (2) the investment of tax revenues and (3) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City’s option, either (1) the percentage change in California per capita personal income, or (2) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college (“K-14”) districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Articles XIII C and XIII D (Proposition 218) of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the “Right to Vote on Taxes Act” (“Proposition 218”). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes and assessments, fees and charges.

Article XIIC

Section 2 of Article XIIC requires majority voter approval for the imposition, extension or increase of general taxes and requires two thirds voter approval for the imposition, extension or increase of special taxes. These voter approval requirements of Article XIIC reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend or increase any such taxes in the future to meet increased expenditure requirements.

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 either imposed, extended or increased prior to the effective date of Proposition 218 or 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, such as the TOT, Proposition 172 revenues, or storm water fees which support the City's General Fund. TOT and other local taxes, assessments, fees and charges, could be subject to reduction or repeal by initiative under Proposition 218.

Section 3 of Article XIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees and charges that had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments or fees and charges imposed prior to November 6, 1996.

"Fees" and "charges" are not expressly defined in Article XIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIC and Article XIID ("SB 919"). However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the "Bighorn Decision") that charges for ongoing water delivery are fees and charges within the meaning Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC. The Bighorn Decision has been interpreted to mean that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIID.

In the Bighorn Decision, the Supreme Court stated that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the Bighorn Decision that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 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.

Article XIIC also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. “Assessments,” “fees” and “charges” are not defined in Article XIIC, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIC as for Article XIID described below. If not, the scope of the initiative power under Article XIIC potentially could include any General Fund local tax, assessment, or fee not received from or imposed by the federal or State government or derived from investment income.

If the City is unable to continue to collect assessment revenues for a particular program, the program might have to be curtailed and/or funded by the City’s General Fund. Given the approval requirements imposed by Article XIID, the City is unable to predict whether it will be able to continue to collect assessment revenues for these programs. If the City chose to fund any such programs from the General Fund instead, the General Fund budget would be affected.

Article XIID

Article XIID defines a “fee” or “charge” as any levy other than an ad valorem tax, special tax, or assessment imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A “property-related service” is defined as “a public service having a direct relationship to a property ownership” herein. Article XIID further provides that reliance by an agency on any parcel map (including an assessor’s parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership. In the Bighorn Decision, the Supreme Court stated that ongoing water delivery charges are also property-related fees and charges within the meaning of Article XIID.

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

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

Depending on the interpretation of what constitutes a “property-related fee” under Article XIII D, there could be future restrictions on the ability of the City’s General Fund to charge its enterprise funds for various services provided. In the event that fees and charges of enterprise funds cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to supplement any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Both Articles XIII A and XIII B, as well as Articles XIII C and XIII D described above, were adopted as measures that qualified for the ballot pursuant to California’s constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (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 October 15, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Corporation v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under section 53722 of the Government Code, required a two-thirds voter approval. The county-wide sales tax at issue received an affirmative vote of only 54.1% and was found to be invalid.

Following the California Supreme Court’s decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (“*La Habra*”). In this case, the court held that public agency’s continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Proposition 1A of 2004

The California Constitution and existing statutes give the legislature authority over property taxes, sales taxes and the VLF. The legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State “mandates” a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has “suspended” mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 (described below) dramatically changed the State-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the “State-local agreement”) in connection with the 2004 Budget Act.

One change related to the reduction of the VLF rate from 2% to 0.65% of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. Proposition 1A of 2004 requires the State to provide local governments with equal replacement revenues.

On November 3, 2004 the voters of the State approved Proposition 1A (“Proposition 1A of 2004”). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature’s authority over local government revenue sources by placing restrictions on the State’s access to local governments’ property tax, sales tax, and VLF revenues as of November 3, 2004. Pursuant to Proposition 1A of 2004, the State is able to borrow up to 8% of local property tax revenues but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approve the borrowing. Any amounts borrowed are required to be repaid within three years. Proposition 1A of 2004 also permits the State to borrow from local property tax revenues for no more than two fiscal years within a period of 10 fiscal years, and only if previous borrowings have been repaid. In addition, the State cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the statewide local sales tax. Proposition 1A of 2004 generally prohibits the State from mandating activities on cities, counties, or special districts without providing the funding needed to comply with the mandates, and if the State does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties, or special districts to abide by the mandate is suspended. Proposition 1A of 2004 also expanded the definition of what constitutes a mandate to encompass State action that transfers to cities, counties, and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

Pursuant to statutory changes made in conjunction with amendments to the fiscal year 2008-09 State Budget Act, the Fiscal Year 2009-10 State Budget Act and related budget legislation adopted by the State Legislature and signed by the Governor in February 2012 (collectively, the “February 2012 Budget Package”), the VLF rate increased from 0.65% to 1.15% effective May 19, 2012. Of this 0.50% increase, 0.35% will flow to the State General Fund, and 0.15% will support various law enforcement programs previously funded by the State General Fund.

Proposition 22

Proposition 22 (“Proposition 22”), which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. Due to the prohibition with respect to State’s ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A of 2004. See “ – Proposition 1 A of 2004” herein. In addition, Proposition 22 generally eliminates the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase schools’ and community college districts’ share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. The LAO states that Proposition 22 will prohibit the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies.

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO anticipated that Proposition 22 would require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need. The City does not believe that Proposition 22 will have a significant impact on its revenues and expenditures.

Proposition 26

Proposition 26 (“Proposition 26”), which was approved by California voters on November 2, 2010, revises the California Constitution to expand the definition of “taxes.” Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments.

Proposition 26 requires the State obtain the approval of two-thirds of both houses of the State Legislature for any proposed change in State statutes, which would result in any taxpayer paying a higher tax. Proposition 26 eliminates the previous practice whereby a tax increase coupled with a tax reduction that resulted in an overall neutral fiscal effect was subject only to a majority vote in the State Legislature. Furthermore, pursuant to Proposition 26, any increase in a fee above the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require such two-thirds vote

of approval to be effective. In addition, for State imposed fees and charges, any fee or charge adopted after January 1, 2010 with a majority vote of approval of the State Legislature which would have required a two-thirds vote of approval of the State Legislature if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010, unless exempted, as stated above. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies. As of the date hereof, none of the City’s fees or charges has been challenged in a court of law in connection with the requirements of Proposition 26.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 generally are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of the affected property owners.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending August 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less

than \$500,000 for single filers (over \$408,000 but less than \$680,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the minimum funding guarantee for school districts and community college districts contained in the State Constitution. From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). By dedicating the Proposition 30 funds to education, other revenues in the State General Fund are freed up to fund other programs. Proposition 30 also placed into the state Constitution the current statutory provisions transferring 1.0625 percent of the state sales tax to local governments to fund realignment.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D, Propositions 62, 1A, 22, 26, and 30 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, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City’s revenues or its ability to expend its revenues.

RISK FACTORS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Bonds are Unsecured General Fund Obligations of the City

The obligation of the City to make debt service payments on the Bonds does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The Indenture does not create a pledge, lien or encumbrance upon the funds of the City. Pursuant to law, the Bonds are payable from any available funds of the City. The City covenants in the Indenture to punctually pay the interest on and principal of every Bond in strict conformity with the terms thereof and of the Indenture. The City is liable and may become liable on other obligations payable from general revenues, some of which may have a priority over payments of the principal of, premium, if any, and interest on, the Bonds, or which the City, in its discretion, may determine to pay prior to the principal of, premium, if any, and interest on, the Bonds.

A variety of national, state or regional factors, which are beyond the control of the City could reduce the City's General Fund revenues or increase the City's General Fund expenditures. If the amounts which the City is obligated to pay in a Fiscal Year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including payments on the Bonds, based on the perceived needs of the City. The same result could occur if, because of California Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare. See "STATE CONSTITUTIONAL LIMITATIONS ON CITY REVENUES AND APPROPRIATIONS."

The City has the capacity to enter into other obligations payable from the City's General Fund without the consent of or prior notice to the Owners of the Bonds, and has expressly reserved the right to issue or incur other obligations for any of its corporate purposes. To the extent that additional obligations are incurred by the City, the funds available to make payments of the principal of, premium, if any, and interest on, the Bonds 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 payment of the principal of, premium, if any, and interest on, the Bonds. The same result could occur if State constitutional expenditure limitations were to prohibit the City from appropriating and spending all of its otherwise available revenues.

Cash Management

The City has numerous internal or external means to manage its cash flow, including but not limited to interfund borrowing, intrafund borrowing and tax and revenue anticipation notes which may be employed to the extent the City Council is required to make budget adjustments in order to maintain a balanced budget. If the City does not take required actions and the budget remains out of balance, the cash requirements of the City may exceed available cash flow. The ability of the City to borrow on an interim basis to meet any cash shortfalls also may be limited if the budget remains out of balance for a sustained period of time. The City has the legal authority to issue "warrants" in place of cash to meet various types of expenditures or appropriations as an additional means to manage its cash flow. See "CITY FINANCIAL INFORMATION."

COVID-19 Pandemic

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a Pandemic (the "COVID-19 Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the City, California, and the United States. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

The COVID-19 Pandemic has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools (including schools in the City). The United States is restricting certain non-US citizens and permanent residents from entering the country. In addition, stock markets in the U.S. and globally have been volatile, with significant declines attributed to coronavirus concerns.

On March 4, 2020, the Governor of California proclaimed a state of emergency in California as a result of the threat of COVID-19. Under the California Emergency Services Act, during a state of emergency, the Governor has authority over all agencies of the state government and can exercise the State's police powers. His powers also include the power to promulgate, issue, and enforce orders and regulations as he deems necessary.

To mitigate the spread of the pandemic, several cities and counties throughout the state (including the City) announced shelter-in-place ("Shelter-in-Place") emergency orders on March 13, 2020, which generally directed individuals to stay home, except for certain limited travel for the conduct of essential activities and services. Most retail establishments (e.g., restaurants, bars and nightclubs, entertainment venues, gyms, etc.) were closed in response to the Shelter-in-Place order. On March 17, 2020, the County Health Officer issued a Shelter-in-Place order and on March 19, 2020, California's Governor announced a similar Shelter-in-Place emergency executive order (N 33-20) effective for the entire State.

On August 29, 2020 the Governor announced a new, color-coded statewide system called "Blueprint for a Safer Economy." The new structure replaces the county monitoring list. The color-coded system became effective as of August 31, 2020. As detailed below, the new system features a color-coded list benchmarked to each county's rate of new cases per 100,000 residents per day (based on a seven-day average with seven-day lag) and the percentage of positive COVID-19 tests. Hospitalizations and capacity at intensive care units are given less weight than under the prior system.

Under the new system, each county is given a designation of "purple" (widespread), "red" (substantial) "orange" (moderate) or "yellow" (minimal) that measures the spread of COVID-19 and dictates what types of businesses and activities are allowed to open in each county.

Each county will be assigned its tier every Tuesday, and a county must remain in a tier for 21 consecutive days before moving to the next one. To move forward, a county must meet the next tier's criteria for 14 consecutive days. A county can move backwards by failing to meet the criteria for two consecutive weeks, or if state officials see a rapid rise in hospitalizations. County guidelines may override the state's reopening thresholds, but only if they are stricter.

A brief summary of the four tiers is below:

Purple tier: County risk level is "widespread"

- *Benchmark* - More than seven daily new cases per 100,000 residents, or test positivity greater than 8%.
- Most non-essential indoor businesses operations are closed, but indoor hair salons and barbershops can reopen effective immediately.
- All retail stores and shopping malls may open at a maximum of 25% capacity.

Red tier: County risk level is “substantial”

- Benchmark - Four to seven daily new cases per 100,000 residents, or test positivity between 5% and 8%
- Some non-essential indoor business operations (office spaces, card rooms) are closed, but gyms, movie theaters and indoor dining can reopen with modifications and capacity limitations.
- Schools can open for in-person instruction two weeks after a county moves from purple to red.
- All retail stores and shopping malls may increase occupancy to a maximum of 50% capacity.
- **The County is currently in the Red/ Substantial tier.**

Orange tier: County risk is “moderate”

- Benchmark - One to four daily new cases per 100,000 residents, or test positivity between 2% and 5%.
- Most non-essential indoor business operations including office spaces, card rooms, gyms, movie theaters and indoor dining can reopen with modifications and capacity limitations.
- Bars may open outdoor service with modification.

Yellow tier: County risk is “minimal”

- Benchmark - Less than 1 new daily case per 100,000 residents, or test positivity less than 2%.
- non-essential indoor business operations (office spaces, card rooms) are closed, but gyms, movie theaters and indoor dining can reopen with modifications. Capacity limitations are increased.
- Bars may open indoors with modifications and capacity limitations.

Additional information about the State’s reopening plans and the County’s current status can be found at the State’s website, www.covid19.ca.gov. Also see the County’s website www.occovid19.ochealthinfo.com for up to date information regarding COVID-19 restrictions in place in the County. Reference to the State’s and the County’s website is included in this Official Statement for general information only and information on such website is not included in this Official Statement by reference to such website.

The COVID-19 Pandemic has negatively affected travel, commerce, investment values, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. While federal and state governments (including California) have enacted legislation and taken executive actions seeking to mitigate the negative public health and economic impacts of the Pandemic, the City offers no assurances that these interventions will have the intended effects.

These negative economic impacts may reduce or otherwise negatively affect revenues to the City’s General Fund including declines in sales tax, property tax, and transient occupancy tax revenues as discussed under “CITY FINANCIAL INFORMATION.” The City has developed what it believes to be reasonable budgeted projections of the magnitude of these impacts on its revenues and on its expenditures, the COVID-19 Pandemic is ongoing and the City cannot predict how and when it will be resolved.

The COVID-19 Pandemic has also resulted in reductions in the value of investments of the City’s pension funds and funds for post-employment benefits. Notwithstanding the issuance of the Bonds, if these

investment value reductions are not sufficiently and timely reversed, the City may be required to materially increase its contributions to fund or pay pension and other post-employment benefits in the future.

The COVID-19 Pandemic is ongoing, and the ultimate geographic spread of the coronavirus, the duration and severity of the outbreak, and the economic and other of actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of the COVID-19 Pandemic on the City's operations and finances is unknown. As of the date of this Official Statement, the City does not believe that the impacts of the COVID-19 Pandemic will prevent the City from making payments of principal and interest on the Bonds when due.

Limitation on Remedies; Bankruptcy

The enforceability of the rights and remedies of the Holders of the Bonds are subject to a number of limitations, including bankruptcy, moratorium, insolvency or other laws affecting creditor's rights or remedies and is subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State.

In addition, the rights and remedies of the Owners may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles that may affect the enforcement of creditors' rights. The City is a governmental unit and therefore cannot be the subject of an involuntary case under the United States Bankruptcy Code (the "Bankruptcy Code"). However, the City is a municipality and therefore may seek voluntary protection from its creditors pursuant to Chapter 9 of the Bankruptcy Code for purposes of adjusting its debts. Should the City file for bankruptcy, there could be adverse effects on the Owners. In two situations in the State, holders of pension obligations bonds issued by cities that participate in CalPERS experienced significant losses in their investment in such pension obligation bonds as a result of the cities subsequently seeking voluntary protection from their creditors pursuant to Chapter 9 of the Bankruptcy Code.

If the City is in bankruptcy, the parties (including the Trustee and the Owners) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee's possession.

The Bonds are not secured by any property other than the funds that the City has actually deposited with the Trustee, and the City is not obligated to deposit any funds with the Trustee until the third business day prior to the applicable bond payment debt. The Bonds are not secured by the funds in the City treasury allocated to pay debt service on the Bonds. If the City is in bankruptcy, it may not be obligated to make any further deposits with the Trustee, it may not be obligated to make any further allocations to the payment of debt service, and it may not be obligated to turn over to the Trustee any moneys that have been allocated in the City treasury. As a result, the Bonds would likely be treated as unsecured obligations of the City in the bankruptcy case. Under such circumstances, the Owners could suffer substantial losses.

The City may be able, without the consent and over the objection of the Trustee or the Owners, to alter the priority, interest rate, payment terms, maturity dates, payment sources, covenants, and other terms or provisions of the Indenture and the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the Bonds, or result in losses to the Owners. Regardless of any specific adverse determinations in a City bankruptcy proceeding, the fact of a City bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds.

Pension Benefit Liability

Many factors influence the amount of the City's pension benefit liabilities, including, without limitation, inflationary factors, changes in statutory provisions of CalPERS retirement system laws, changes in the level of benefits provided or in the contribution rates of the City, increases or decreases in the number of covered employees, changes in actuarial assumptions or methods (including but not limited to the assumed rate of return), and differences between actual and anticipated investment experience of CalPERS. Any of these factors could give rise to additional liability of the City to its pension plans as a result of which the City would be obligated to make additional payments to its pension plans in order to fully fund the City's obligations to its pension plans. It is expected that required contributions to CalPERS will go up in future years.

Geologic Conditions

From time to time, the City has been and could be subject to natural calamities, including, but not limited to, earthquake, flood or wildfire, that may adversely affect economic activity in the City, and which could have a negative impact on City finances.

Like most regions in California, the City is in an area of significant seismic activity. Damage resulting from such an event could have a material adverse effect on the City's financial condition through unexpected recovery costs and reduced tax and other revenues.

Hazardous Substances

One of the most serious risks in terms of the potential reduction in the value or use of a parcel of property is a claim with regard to a hazardous substance. In general, the owners, lessors and/or lessees of a parcel of real property may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in application. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has contributed to or caused contamination with the hazardous substances. The effect, therefore, should property in the City be affected by a hazardous substance, is to reduce both marketability and the value of property by the costs of remedying the condition. While the City is not currently aware of any such condition, it is possible that such hazardous substance conditions do currently exist and that the City has not been made aware of their existence.

Orange County Groundwater Basin Plume. On September 1, 2020, the U.S. Environmental Protection Agency ("EPA") announced the addition of the Orange County North Basin site in southern California to the Superfund National Priorities List ("NPL"). The Orange County North Basin includes parts of the cities of Anaheim, Fullerton and Placentia, and is part of the larger Orange County Groundwater

Basin. The Orange County North Basin has developed a groundwater plume (the “Plume”) that is contaminated with chlorinated solvents and other contaminants and covers approximately five square miles. Seventy percent of the water served in Orange County is from groundwater, making the basin a critical water resource for 2.4 million residents in 22 cities. All drinking water currently served by water purveyors, including the City’s water system, meets federal and state drinking water standards.

Potential Impact of State of California Financial Condition on the City

During the most recent recession, the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State has had a budget surplus in the more recent fiscal years, according to the State there remain a number of major risks and pressures that threaten the State’s financial condition, including the threat of recession, potential changes to federal fiscal policies and unfunded long-term liabilities of more than \$200 billion related to pensions and other post-retirement benefits. These risks and financial pressures could result in future reductions or deferrals in amounts payable to the City. The State’s financial condition and budget policies affect local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the City, the City will be required to adjust its budget. State budget policies can also impact conditions in the local economy and could have an adverse effect on the local economy and the City’s major revenue sources.

No prediction can be made by the City as to whether the State will encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the 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 over which the City has no control (see “STATE BUDGET INFORMATION”).

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

Risks Related to Cyber Security

The City, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other sensitive electronic information, the City is potentially subject to multiple cyber threats, including without limitation hacking, viruses, ransomware, malware and other attacks.

In the past year, the City became aware of posts on a public website which contained confidential City information. The City immediately began an investigation to identify the source of the activity and to confirm the security of its network, and worked with a third-party forensic investigator to determine the nature and scope of this event. During the City’s investigation, it discovered an internal data storage account was accessed by unauthorized users on multiple occasions from about 2016 through June 21, 2019.

The investigation further revealed the data included copies of emails and attachments that contained certain protected information. As a precaution, the entire contents of the storage account were reviewed to identify the information that may have been accessible within the account. The City provided written notice to those individuals whose information was found in the data storage account. However, a small number of files present in the data storage account at the time of the access were not recovered and were unable to be reviewed. The City immediately secured the account at issue, reviewed existing security measures and is working diligently to implement additional security measures to ensure the security of its network. The City maintains cybersecurity insurance.

No assurance can be given that the City's efforts to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City. The City is also reliant on other entities and service providers in connection with the administration of the Bonds. No assurance can be given that the City and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond owners.

Split Roll Initiative

On October 15, 2018, a proposed ballot initiative became eligible for the November 2020 Statewide ballot (the "Proposition 15"). If approved by a majority of voters casting a ballot at the November 2020 Statewide election, Proposition 15 would amend Article XIII A such that the "full cash value" of commercial and industrial real property that is not zoned for commercial agricultural production, for each lien date, would be equal to the fair market value of that property. If passed, Proposition 15 would not affect the "full cash value" of residential property or real property used for commercial agricultural production, which would continue to be subject to annual increases not to exceed 2%. After compensating the State General Fund for resulting reductions in State personal income tax and corporate tax revenues, and compensating cities, counties and special districts for the cost of implementing Proposition 15, approximately 40% of the remaining additional tax revenues generated as a result of Proposition 15 would be deposited into a fund created pursuant to Proposition 15 called the Local School and Community College Property Tax Fund, with such funds being used to supplement, and not replace, existing funding school districts and community college districts receive under the State's constitutional minimum funding requirement.

The City cannot predict whether Proposition 15 will be approved by a majority of voters casting a ballot. If approved, the City cannot make any assurance as to what effect the implementation of Proposition 15 will have on City revenues or the assessed valuation of real property in the City.

Changes in Law

There can be no assurance that the electorate of the State will not at some future time adopt additional initiatives or that the Legislature will not enact legislation that will amend the laws or the Constitution of the State resulting in a reduction of the General Fund revenues of the City and consequently, having an adverse effect on the security for the Bonds.

ABSENCE OF LITIGATION

At the time of delivery of and payment for the Bonds, the City will certify that there is no action, suit, proceeding, inquiry, or investigation, at law or in equity, before or by any court or regulatory agency,

public board, or body pending or threatened against the City affecting the existence or the titles its officers or seeking to restrain or to enjoin the issuance, sale, or delivery of the Bonds, or the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, any agreement entered into between the City and any purchaser of the Bonds, the Indenture or any other applicable agreements or any action of the City contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the Bonds or any action of the City contemplated by any of said documents, nor, to the knowledge of the City, is there any basis therefor.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than March 31 after the end of each fiscal year of the City (currently June 30), commencing not later than March 31, 2021, with the report for the 2019-20 fiscal year (the “Annual Report”), and to provide notices of the occurrence of certain listed events. The Annual Report and the notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board through its Electronic Municipal Access System (“EMMA”). The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized below under the caption APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

The City and its related entities previously entered into certain disclosure undertakings under the Rule in connection with the issuance of long-term obligations. During the past five years, the City and such related entities have, in some instances, failed to comply with their undertakings pursuant to the Rule, including, but not limited to, the failure to timely file complete annual reports and notices of rating changes, to link all required CUSIPs to all filings, and to provide notice that certain annual reports and operating information would be filed late. The City and its related entities have since made remedial filings to correct all such noncompliance.

To ensure compliance with the continuing disclosure undertakings of the City and its related entities under the Rule, the City Manager is responsible for preparing and filing annual disclosure reports.

Except as disclosed in this Official Statement, within the last five years, the City and its related entities have not failed to timely comply with their respective prior continuing disclosure obligations under the Rule.

MUNICIPAL ADVISOR

The City has retained Urban Futures, Inc., Tustin, California, as Municipal Advisor in connection with the authorization and issuance of the Bonds. The Municipal Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the issuance and sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing

disclosure undertakings. The Municipal Advisor's compensation is contingent upon the sale and delivery of the Bonds.

LEGAL MATTERS

All legal matters in connection with the execution and delivery of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Bond Counsel's opinion with respect to the Bonds will be substantially in the form set forth in APPENDIX G—FORM OF OPINION OF BOND COUNSEL. Certain legal matters will also be passed on for the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and for the Underwriter by its counsel Kutak Rock LLP, Irvine, California. The fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter's counsel are contingent upon the execution and delivery of the Bonds.

TAX MATTERS

The interest on the Bonds is not intended by the City to be excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation ("Bond Counsel"), San Francisco, California, interest on the Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the Bonds to be delivered on the date of issuance of the Bonds is set forth in APPENDIX G—FORM OF OPINION OF BOND COUNSEL.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the Bonds, the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will examine the arithmetical accuracy of certain computations included in the schedules relating to the refunding of the Refunded 2013 Bonds. See "THE FINANCING PLAN." The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

UNDERWRITING

The Bonds are being purchased by Hilltop Securities Inc. (the "Underwriter"). The Underwriter will agree to purchase the Bonds at a price of \$_____ (representing the \$_____ aggregate principal amount of the Bonds, less \$_____ of Underwriter's discount). The Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said Purchase Agreement, approval of certain legal matters by counsel and certain other conditions. After a bona fide initial

public offering at the price stated on the cover page hereof, the Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the initial public offering price. The offering price may be changed from time to time by the Underwriter.

RATING

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") has assigned the rating of "____" to the Bonds. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating should be obtained from S&P at the following address: 55 Water Street, New York, NY 10041, (212) 208-8000. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the Bonds.

FINANCIAL STATEMENTS

The City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2019 is set forth in APPENDIX C—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF FULLERTON FOR THE FISCAL YEAR ENDED JUNE 30, 2019. The City's Auditor was not requested to consent to the inclusion of its report in Appendix C and it has not undertaken to update financial statements included in Appendix C. No opinion is expressed by the City's Auditor with respect to any event subsequent to its report.

ADDITIONAL INFORMATION

All of the preceding summaries of the Bonds, the Indenture and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Bonds.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

References are made herein to certain documents and reports which are brief summaries thereof which 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.

The City will furnish a certificate dated the date of delivery of the Bonds, from an appropriate officer of the City, to the effect that to the best of such officer's knowledge and belief, and after reasonable investigation, (i) neither the Official Statement nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements

therein, in light of the circumstances in which they were made, not misleading; (ii) since the date of the Official Statement, no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement, and the Bonds, the Indenture and other applicable agreements conform as to form and tenor to the descriptions thereof contained in the Official Statement; and (iii) the City has complied with all the agreements and has satisfied all the conditions on its part to be performed or satisfied under the Indenture at and prior to the date of the issuance of the Bonds.

The execution and delivery of the Official Statement by the City have been duly authorized by the City Council on behalf of the City.

CITY OF FULLERTON

By _____
Kenneth A. Domer,
City Manager

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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APPENDIX B

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY AND THE COUNTY

The following information concerning the City of Fullerton and Orange County is included only for the purpose of supplying general information regarding the City and the County. The Bonds are not a debt of the County, the State or any of its political subdivisions, and none of the County, the State nor any of their political subdivisions, except for the City, are liable therefor.

Although reasonable efforts have been made to include up-to-date information in this Appendix B, some of the information is not current due to delays in reporting of information by various sources. It should not be assumed that the trends indicated by the following data would continue beyond the specific periods reflected herein.

Introduction

City of Fullerton. The City is located in Southern California in Orange County (the “County”), approximately 30 miles southeast of the City of Los Angeles. The City was founded in 1887 and incorporated in 1904 and operates as a general law city. The City encompasses approximately 22.4 square miles and has a current population of approximately 143,000. The City is bordered by La Habra and Brea on the north, La Mirada on the northwest, Buena Park on the west, Anaheim on the south, and Placentia on the east. The City is the home of California State University, Fullerton and Fullerton College.

Orange County. The County was incorporated in 1889 and is located in the southern part of the State. The County is one of the major metropolitan areas in the state and nation. The County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 3 million. It represents the third most populous county in the State and ranks sixth in the nation.

The County is a charter county as a result of the March 5, 2002, voter approval of Measure V, which provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law county, mid-term vacancies would otherwise be filled by gubernatorial appointment. In November 2008, voters approved Measure J, which added Article III, Section 301 to the Charter of The County requiring voter approval for increases in future retirement system benefits of any employee, legislative officer, or elected official of the County in the Orange County Employees Retirement System (OCERS) or any successor retirement system, with the exception of statutorily-established cost of living adjustments, salary increases, and annual leave or compensatory time cash-outs. In all other respects, the County is like a general law county. The County is governed by a five-member Board of Supervisors each of whom serves four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each approximately equal in population. The County provides a full range of services countywide, for the unincorporated areas, and contracted through cities.

Population

The table below summarizes population of the City, the County, and the State of California for the last five years.

CITY OF FULLERTON, ORANGE COUNTY, and CALIFORNIA Population

<u>Year</u>	<u>City of Fullerton</u>	<u>Orange County</u>	<u>State of California</u>
2016	141,769	3,162,789	39,131,307
2017	142,614	3,184,229	39,398,702
2018	142,787	3,192,092	39,586,646
2019	141,931	3,192,987	39,695,376
2020	141,863	3,194,332	39,782,870

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2011-20, with 2010 Census Benchmark.

Employment

The following table summarizes historical employment and unemployment for the County, the State of California and the United States:

ORANGE COUNTY, CALIFORNIA, and UNITED STATES Civilian Labor Force, Employment, and Unemployment (Annual Averages)

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate ⁽¹⁾
2015	Orange County	1,597,100	1,525,600	71,500	4.5
	California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	148,834,000	8,296,000	5.3
2016	Orange County	1,602,400	1,538,000	64,300	4.0
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	7,751,000	4.9
2017	Orange County	1,619,200	1,562,600	56,600	3.5
	California	19,312,000	18,393,100	918,900	4.8
	United States	160,320,000	153,337,000	6,982,000	4.4
2018	Orange County	1,625,400	1,577,900	47,500	2.9
	California	19,398,200	18,582,800	815,400	4.2
	United States	162,075,000	155,761,000	6,314,000	3.9
2019 ⁽²⁾	Orange County	1,623,400	1,578,300	45,100	2.8
	California	19,411,600	18,627,400	784,200	4.0
	United States	163,539,000	157,538,000	6,001,000	3.7

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-19, and US Department of Labor.

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

(2) Latest available full-year data.

Major Industries in the County

The table below sets forth the ten largest industries by employment in Orange County in 2019.

ORANGE COUNTY Top 10 Industries as of June 30, 2019

Employer	Employees	% of Total County Employment
Walt Disney Co.	30,000	1.86%
University of California, Irvine	23,884	1.48
Orange County	18,313	1.14
St. Joseph Health System	14,000	0.87
Kaiser Permanente	8,178	0.51
Albertsons	7,670	0.48
Target Corporation	6,300	0.39
Walmart Inc.	6,200	0.38
Hoag Memorial Hospital	6,100	0.38
Boeing Co.	6,000	0.37
Total Top 10	126,645	7.86%

Source: Orange County 2018-19 CAFR.

Construction Activity

The following table reflects the five-year history of building permit valuation for the City and the County:

CITY OF FULLERTON Building Permits and Valuation (Dollars in Thousands)

	2015	2016	2017	2018	2019 ⁽¹⁾
<u>Permit Valuation:</u>					
New Single-family	\$ 12,541	\$ 7,648	\$ 7,369	\$ 6,780	\$ 3,735
New Multi-family	41,423	11,662	22,372	7,166	32,140
Res. Alterations/Additions	3,881	3,862	3,759	3,138	2,070
Total Residential	57,846	23,173	33,500	17,085	37,946
Total Nonresidential	35,905	32,312	46,189	12,561	17,606
Total All Building	93,751	55,485	79,690	29,646	55,552
<u>New Dwelling Units:</u>					
Single Family	40	26	20	21	17
Multiple Family	331	72	190	57	307
Total	371	98	210	78	324

ORANGE COUNTY Building Permits and Valuation (Dollars in Thousands)

	2015	2016	2017	2018	2019 ⁽¹⁾
<u>Permit Valuation:</u>					
New Single-family	\$1,288,428	\$1,464,920	\$1,809,779	\$1,442,020	\$ 1,094,668
New Multi-family	1,052,113	1,195,586	880,561	726,503	1,010,555
Res. Alterations/Additions	486,341	491,132	498,259	582,094	537,089
Total Residential	2,826,883	3,151,639	3,188,600	2,750,618	2,642,313
Total Nonresidential	2,203,105	2,495,687	2,090,028	3,532,284	3,152,501
Total All Building	5,029,988	5,647,326	5,278,629	6,282,903	5,794,814
<u>New Dwelling Units:</u>					
Single Family	3,667	4,226	5,097	3,975	3,125
Multiple Family	7,230	7,908	5,197	4,130	7,169
Total	10,897	12,134	10,294	8,105	10,294

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Columns may not sum to totals due to independent rounding.

(1) Latest available full year data.

Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the past five years.

**CITY OF FULLERTON, ORANGE COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
Median Household Effective Buying Income**

	2015	2016	2017	2018	2019
Fullerton	\$ 58,891	\$ 59,891	\$ 62,253	\$ 66,171	\$ 68,666
Orange County	64,420	66,303	69,088	73,894	75,672
California	53,589	55,681	59,646	62,637	65,870
United States	46,738	48,043	50,735	52,841	55,303

Source: Nielsen, Inc

APPENDIX C

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY OF FULLERTON
FOR THE YEAR ENDED JUNE 30, 2019**

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APPENDIX D

CITY OF FULLERTON INVESTMENT POLICY

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APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF FULLERTON (the “City”) in connection with the issuance by the City of its \$ _____* City of Fullerton (Orange County, California) Taxable Judgment Obligation Refunding Bonds, Series 2020 (the “Bonds”). The Bonds are being issued pursuant to a Indenture, dated as of November 1, 2020 (the “Indenture”), by and between the City and U.S. Bank National Association, as trustee (the “Trustee”). The City covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth above and, in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the City’s fiscal year (currently March 31 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” shall mean, initially, the City or any successor Dissemination Agent designed in writing by the City and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

“*Fiscal Year*” means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve-month period selected and designated by the City as its official fiscal year period under a certificate of the City filed with the Trustee.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Hilltop Securities Inc., the original underwriter of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

“*Significant Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

Section 2. Purpose of the 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 S.E.C. Rule 15c2- 12(b)(5).

* Preliminary, subject to change.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2021, with the report for Fiscal Year 2019-20 provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Significant Event under Section 5(b). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City in a timely manner shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The City's audited financial statements 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 Annual Report Date, 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 become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the Official Statement, as follows:

- (i) general fund revenue sources by type (over \$1,000,000);
- (ii) combined annual contribution (City's share and employees' share) to the Public Employees Retirement System; and
- (iii) adopted general fund budget.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Significant Events with respect to the Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the securities, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person;
- (xiii) 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, if material;
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (xv) The incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; or
- (xvi) A default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

(b) Whenever the City obtains knowledge of the occurrence of a Significant Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic

format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Significant Event. Notwithstanding the foregoing, notice of Significant Events described in subsection (a)(viii) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), (a)(xiv) and (a) (xv) of this Section 5 contain the qualifier “if material.” The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law. The City intends that the words used in paragraphs (xv) and (xvi) and the definition of “financial obligation” to have the meanings ascribed thereto in SEC Release No. 34-83885 (August 20, 2018) or any further guidance or release provided by the SEC.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(xii) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting 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.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

Section 9. 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 the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating

data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

The Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations hereunder.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Significant Event under Section 5(b).

Section 10. 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 Annual Report or notice of occurrence of a Significant Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Significant Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Significant Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure 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.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) Article IX of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Date: [Closing Date]

CITY OF FULLERTON

By _____
Authorized Officer

EXHIBIT A

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Fullerton

Name of Issue: City of Fullerton (Orange County, California) Taxable Judgment Obligation Refunding Bonds, Series 2020

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Issuer in connection with the Issue. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF FULLERTON

By _____
Title _____

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F, concerning The Depository Trust Company, New York, New York (“DTC”), and DTC’s book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix F. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC. Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (as used in this Appendix F, the “Securities”). The Securities 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 Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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 an S&P Global Ratings 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. Information set forth in such website is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit the 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.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the paying agent or bond 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 nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or bond 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the City or the paying agent or bond trustee. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX G
FORM OF OPINION OF BOND COUNSEL

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