

NEW ISSUE- BOOK-ENTRY ONLY

RATING

S&P: "A"

(See "CONCLUDING INFORMATION - Rating on the Bonds" herein)

In the opinion of Jones Hall, a Professional Law Corporation, San Francisco, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, except during any period while a Bond is held by a "substantial user" of the facilities financed by the Bonds or by a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986. It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Bonds is, under existing law, exempt from personal income taxation imposed by the State of California. See "TAX MATTERS."

\$22,315,000*

CITY OF PALM SPRINGS

2019 AIRPORT PASSENGER FACILITY CHARGE REVENUE BONDS

(PALM SPRINGS INTERNATIONAL AIRPORT)

Dated: Date of Delivery

Due: June 1 as shown on the inside front cover page

The City of Palm Springs 2019 Airport Passenger Facility Charge Revenue Bonds (Palm Springs International Airport) (the "Bonds"), are being issued to (i) finance a portion of the design, acquisition, and construction of certain ticketing hall and baggage handling system improvements (the "Project") at the Palm Springs International Airport (the "Airport") in the City of Palm Springs (the "City"), (ii) satisfy the reserve requirement for the Bonds and (iii) pay the costs of issuing the Bonds.

The Bonds are secured solely from and are payable from a first lien on passenger facility charges ("Passenger Facility Charges") imposed by the City under the authority of the Federal Aviation Act and regulations promulgated thereunder (the "PFC Revenues"), and subject to the limitation on the use of PFC Revenues as further described herein (see "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and "RISK FACTORS" herein). The Federal Aviation Administration has the right to terminate the City's authority to collect Passenger Facility Charges in certain events. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Termination of Authority to Impose a Passenger Facility Charge" and "RISK FACTORS - Passenger Facility Charges - Termination of PFCs."

Interest on the Bonds is payable semiannually on June 1 and December 1 of each year, commencing December 1, 2019, until maturity or earlier redemption. See "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein.

The Bonds are limited obligations of the City. The Bonds do not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation. The Bonds do not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. Neither the General Fund of the City or any operating revenues of the Airport other than PFC Revenues are pledged to or liable for the repayment of the Bonds.

CERTAIN EVENTS COULD ADVERSELY AFFECT THE ABILITY OF THE CITY TO PAY THE PRINCIPAL AND INTEREST ON THE BONDS WHEN DUE. THE PURCHASE OF THE BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE BONDS ARE NOT SUITABLE FOR MANY INVESTORS. SEE THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "RISK FACTORS" FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN EVALUATING THE INVESTMENT QUALITY OF THE BONDS.

The City has received a commitment from Build America Mutual Assurance Company for a policy of municipal bond insurance for all or a portion of the Bonds. The terms of any such insurance if purchased will be included in the final official statement.

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The Bonds are being offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed on for the City by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel, and by Best Best & Krieger LLP, San Diego, California, as City Attorney. Certain legal matters will be passed on for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Bonds will be available for delivery through the book-entry facilities of The Depository Trust Company on or about July 16, 2019 (see "APPENDIX F - THE BOOK-ENTRY SYSTEM" herein).

The date of the Official Statement is _____, 2019.

STIFEL

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. 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 under the securities laws of such jurisdiction.

\$22,315,000*
CITY OF PALM SPRINGS
2019 AIRPORT PASSENGER FACILITY CHARGE REVENUE BONDS
(PALM SPRINGS INTERNATIONAL AIRPORT)

MATURITY SCHEDULE
(Base CUSIP^{®†} _____)

Maturity Date	Principal	Interest	Reoffering	Reoffering	CUSIP^{®†}
<u>June 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					

* Preliminary, subject to change.

† CUSIP[®] is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the City, the Municipal Advisor or the Underwriter and are included solely for the convenience of the holders of the Bonds. None of the City, the Municipal Advisor or the Underwriter is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity 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 offer and 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 to be construed as a contract with the purchasers of the Bonds.

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, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement.

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

Preparation of This Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable. The information and expressions of opinions herein are subject to change without notice and neither the 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, unless authorized in writing by the City. All summaries of the Bonds, the Indenture or other documents, are made subject to the provisions of such documents 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 Clerk for further information. See “INTRODUCTION - Summaries Not Definitive.”

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

Bonds are Exempt From Securities Laws Registration. The issuance, sale and delivery of the Bonds has not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the execution, sale and delivery of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the City, any press release and any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced herein, 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.

Stabilization of and Changes to Offering Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

City Website. The City maintains a website. The information on such website is not part of this Official Statement and is not intended to be relied on by investors with respect to the Bonds unless specifically set forth or incorporated herein.

CITY OF PALM SPRINGS, CALIFORNIA

CITY COUNCIL MEMBERS

Robert Moon, *Mayor*
Geoff Kors, *Mayor Pro Tem*
Christy Holstege, *Councilmember*
Lisa Middleton, *Councilmember*
J.R. Roberts, *Councilmember*

CITY STAFF

David H. Ready, Esq., Ph.D., *City Manager*
Thomas Nolan, *Executive Director Aviation*
Marcus Fuller, M.P.A., P.E., P.L.S., *Assistant City Manager/City Engineer*
Nancy A. Pauley, *Director of Finance and Treasurer*
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Municipal Advisor

Harrell & Company Advisors, LLC
Orange, California

Airport Consultant

Ricondo & Associates, Inc.
Cincinnati, Ohio

Trustee

U.S. Bank National Association
Los Angeles, California

TABLE OF CONTENTS

INTRODUCTION	1	Airport's Largest Carriers	38
The City	1	Airline Mergers and Acquisitions	38
The Airport	1	Regulations and Restrictions Affecting the Airport	38
Purpose	2	Climate Change Issues and Possible New Regulation	39
Security and Sources of Repayment	2	Special Factors Affecting the Airport.....	39
Report of Airport Consultant	2	Passenger Facility Charges	39
Limited Obligation.....	2	Refinancing Risk.....	40
Legal Matters.....	3	Federal Funding Considerations	41
Offering of the Bonds	3	Capacity of National Air Traffic Control and Airport Systems	41
Summaries Not Definitive	3	Forward-Looking Statements.....	41
THE FINANCING PLAN.....	3	Uncertainties of Projections, Forecasts and Assumptions.....	42
The Project.....	3	Parity Debt.....	42
Estimated Sources and Uses of Funds	5	Limitations on Remedies; Bankruptcy.....	42
THE BONDS.....	6	Early Redemption Risk.....	43
General Provisions.....	6	Loss of Tax Exemption on the Bonds	43
Redemption.....	6	IRS Audit of Tax-Exempt Bond Issues	43
Parity Debt.....	8	Secondary Market Risk.....	43
Scheduled Debt Service on the Bonds.....	9	TAX MATTERS.....	44
SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.....	10	LEGAL MATTERS	45
General.....	10	Enforceability of Remedies.....	45
Imposition of Passenger Facility Charge by City	10	Approval of Legal Proceedings.....	45
Covenant to Comply With the Federal PFC Act	11	Absence of Litigation.....	46
Termination of Authority to Impose a Passenger Facility Charge.....	12	CONCLUDING INFORMATION	46
Calculation of PFC Revenues Available Under the PFC Limit	13	Rating on the Bonds.....	46
Administration of the Revenue Fund and PFC Revenue Fund	14	Underwriting.....	46
THE AIRPORT.....	16	The Municipal Advisor	46
Management	16	Continuing Disclosure	47
Air Trade Area	16	Additional Information	47
Existing Facilities	18	References.....	47
Airport Master Plan	21	Execution	47
Airlines Serving the Airport.....	22	APPENDIX A - SUMMARY OF THE INDENTURE	
Airline Use Agreements.....	24	APPENDIX B - REPORT OF AIRPORT CONSULTANT	
Historical Passenger Activity.....	26	APPENDIX C - CITY AUDITED FINANCIAL STATEMENTS	
Passenger Facility Charges	28	APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE	
Management's Discussion of Passenger Activity	28	APPENDIX E - FORM OF OPINION OF BOND COUNSEL	
Historical Operating Results.....	30	APPENDIX F - THE BOOK-ENTRY SYSTEM	
Outstanding Debt.....	34		
Report of Airport Consultant	34		
Projected Debt Service Coverage	34		
RISK FACTORS.....	36		
Factors Affecting the Airline Industry	36		
Expiration and Possible Termination of Airline Use Agreements	38		

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OFFICIAL STATEMENT

\$22,315,000*

CITY OF PALM SPRINGS

2019 AIRPORT PASSENGER FACILITY CHARGE REVENUE BONDS (PALM SPRINGS INTERNATIONAL AIRPORT)

This Official Statement, which includes the cover page and appendices (the “Official Statement”), is provided to furnish certain information concerning the sale of the City of Palm Springs 2019 Airport Passenger Facility Charge Revenue Bonds (Palm Springs International Airport) (the “Bonds”), in the aggregate principal amount of \$22,315,000*.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. This Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see “RISK FACTORS” herein). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the Bonds, see the summary included in “APPENDIX A - SUMMARY OF THE INDENTURE” herein.

The City

The City of Palm Springs (the “City”) was incorporated as a general law city on April 20, 1938. It became a charter city on July 12, 1994. The City encompasses 96.2 square miles in central Riverside County (the “County”) in the area known as the Coachella Valley. The City is located 108 miles east of downtown Los Angeles and 120 miles west of the Arizona border. Neighboring communities include Palm Desert, Rancho Mirage, Desert Hot Springs and Cathedral City.

The Airport

The City owns and operates the Palm Springs International Airport (the “Airport”). The Airport encompasses 940 acres, including but not limited to, the main terminal, regional concourse, parking lots, aircraft parking apron, public airfield system and a variety of other tenant leaseholds. Originally opened in 1967, the Airport main terminal and taxiways were expanded in 1992 and 1999. The existing facilities provide 19 gates, with second level boarding for 8 gates by way of jet boarding bridges, and the primary runway is 10,000 feet. The regional terminal was opened in 2007.

The Airport is managed by staff of the City and the City is provided advisory direction from the 19-member Palm Springs Airport Commission (the “Airport Commission”). The Airport Commission is composed of representatives from the City, the County and other cities throughout the Coachella Valley.

In 2018, the Airport served approximately 2.3 million total passengers.

See “THE AIRPORT” herein.

* Preliminary, subject to change.

Purpose

The Bonds are being issued to finance a portion of the cost of the design, acquisition, and construction of certain ticketing hall and baggage handling system improvements at the Airport (the “Project”), to satisfy the reserve requirement for the Bonds and to pay the costs of issuing the Bonds. See “THE FINANCING PLAN” herein.

Security and Sources of Repayment

The Bonds are secured under an Indenture of Trust, dated as of July 1, 2019, (the “Indenture”), by and between the City and U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”). See “APPENDIX A - SUMMARY OF THE INDENTURE” herein.

The Bonds are limited obligations of the City, payable from and secured by a pledge of and first lien on passenger facility charges (“Passenger Facility Charges”) imposed by the City (“PFC Revenues”) under the authority of the PFC Act and the PFC Regulations, as defined below, and subject to the limitation on the use of PFC Revenues for such purpose, described in “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Imposition of Passenger Facility Charge by City.” **No other revenues of the City or the Airport are pledged to the payment of the Bonds. The General Fund of the City is not liable for the Bonds, and the net operating revenues of the Airport are not pledged to the payment of the Bonds.** See “RISK FACTORS - Refinancing Risk.”

“PFC Act” means the Aviation Safety and Capacity Expansion Act of 1990, Public Law 101-508, Title IX, Subtitle B., Sections 9110 and 9111, recodified as 40 U.S. Section 40117, as amended or replaced from time to time.

“PFC Regulations” means Part 158 of the Federal Aviation Regulations (14 CFR Part 158), as amended from time to time, and any other regulations issued with respect to the PFC Act.

For a summary of the Indenture, see “APPENDIX A - SUMMARY OF THE INDENTURE” herein. Certain capitalized terms used in this Official Statement and not otherwise defined have the meanings given them in “APPENDIX A.”

Report of Airport Consultant

The Airport has retained Ricondo & Associates, Inc. to serve as the airport consultant (the “Airport Consultant”) in connection with the issuance of the Bonds. The Airport Consultant prepared the Report of Airport Consultant dated June 19, 2019 (the “Report”). The Report is included as “APPENDIX B.” The Airport Consultant has provided its consent to include the Report in this Official Statement. See “APPENDIX B - REPORT OF AIRPORT CONSULTANT.”

Limited Obligation

The Bonds are limited obligations of the City. The pledge granted by the Indenture does not create a legal or equitable pledge, charge, lien or encumbrance upon any of the City’s property, or upon its income, receipts or revenue, except the PFC Revenues of the Airport. The Bonds do not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation. The Bonds do not constitute a debt or liability of the State of California (the “State”) or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Legal Matters

All legal proceedings in connection with the issuance of the Bonds are subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel. Such opinion, and certain tax consequences incident to the ownership of the Bonds are described more fully under the heading “TAX MATTERS” herein. Certain legal matters will be passed on for the City by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel, and by Best Best & Krieger LLP, San Diego, California, as City Attorney. Certain legal matters will be passed on for the Underwriter by its Counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

Offering of the Bonds

Authority for Issuance and Delivery. The Bonds are to be issued in accordance with applicable provisions of the City Charter, the Indenture and by Resolution No. 24616 of the City adopted on June 5, 2019.

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about July 16, 2019 through the facilities of The Depository Trust Company (“DTC”). See “APPENDIX F - THE BOOK-ENTRY SYSTEM.”

Summaries Not Definitive

The summaries and references contained herein with respect to the Indenture, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Municipal Advisor. Copies of these documents may be obtained after delivery of the Bonds at the trust office of the Trustee, U.S. Bank National Association, Los Angeles, California or from the City at 3200 E. Tahquitz Canyon Way, Palm Springs, California 92262.

THE FINANCING PLAN

The Project

Following adoption of the 2015 Airport Master Plan (the “Master Plan”), the City initiated the design process for a ticketing hall expansion project (the “Project”). See “THE AIRPORT - Airport Master Plan” herein. The Airport’s ticketing hall is comprised of airline ticket counters, public circulation space, airline operations space, and outbound baggage handling areas. By expanding and rehabilitating the ticketing hall, the Project seeks to address the deficiencies identified in the Master Plan related to ticketing, queuing, public circulation space, and the existing baggage handling system. The objectives for the Project include:

- Work within the confines of the existing terminal footprint to create additional public space through interior remodel and preservation of the terminal’s historic front (west) façade;
- Relocate airline ticket office space by 19 feet to the east to create approximately 5,000 additional square feet of public circulation space in the ticketing area;
- Install architecturally and functionally standardized new airline check-in counters increasing the total customer service positions from 48 to 58;

- Enclose the rear (east side) of the ticketing wing’s steel enforced canopy area to create additional conditioned interior space to house the new automated Baggage System;
- Install an automated baggage handling system to enhance capacity and efficiency throughput, and fortify airline and TSA security processes, and centralize the TSA baggage screening area for enhanced processing efficiencies;
- Expand the passenger circulation corridor to nearly twice the current capacity;
- Preserve the terminal’s aviation theme while integrating new digital signage technologies for improved messaging from airlines to passengers;
- Increase the number of airline self-check-in kiosks;
- Create appropriate wheelchair storage space;
- Modify the public area ceiling height to reduce ambient noise levels;
- Replace air conditioning, plumbing, and electrical systems with modern more energy efficient systems; and
- Introduce airline shared-use check-in systems.

The design of the Project has been developed to maintain the original architectural themes of the terminal building established by architect Donald Wexler. The design approach for the ticketing hall lobby embraces Wexler’s original Mid-Century Modern design and reinforced the sense of flight accomplished through the shapes and materials used in the space. A unifying component is the sloped stretched fabric ceiling that extends over the highly visual public circulation and ticket counter queue areas. Its shape and slope invoke the underside of an airplane wing. Gloss painted architectural columns supporting tapered beams are evocative of aircraft landing gear and wing struts. The extruded ticket counters are emblematic of style and class yet configured for passenger and airline agent efficiency of transaction. Bids for construction of the Project have been received. Based on the lowest bid, the cost of the Project is estimated as follows:

Construction Cost	\$29,927,000
Contingency for Change Orders/ Change in Conditions	3,166,000
Outside Construction Management	763,878
Anticipated Design Cost Increase	189,513
Airline Phased Relocation During Construction	844,310
Office Fit-Out	<u>400,000</u>
Total	\$35,290,701

The City expects that the contract with Swinerton Builders will be executed in August 2019, subject to approval of the AIP grant described below, and ordering of equipment with significant (5-8 month) lead time will occur at that time. The first phase of demolition of some existing improvements is anticipated in early May 2020 (after the peak travel season). Construction completion is expected by December 2020 prior to the holiday travel season.

In its approval of the City’s PFC Application 17-02-C-00-PSP, as amended by 17-02-C-01-PSP (collectively, the “2017 PFC Approval”), the Federal Aviation Administration (“FAA”) approved funding of \$22,612,570 of the Project from proceeds of the Bonds. The balance of the Project costs will be funded through a combination of PFC Revenues on hand, federal Airport Improvement Program (“AIP”) grant funds and available Airport capital project funding as shown below:

Bond proceeds	\$22,612,570
AIP Grant	7,850,331
PFC funds on hand ⁽¹⁾	721,082
Available Airport funds	<u>4,106,718</u>
Total	\$35,290,701

⁽¹⁾ Part of the 2017 PFC Approval included the use of \$721,082 of PFC Revenues to provide the local match for the AIP grant portion of the construction funding (“Local Match”).

On May 2, 2019 the City filed a grant application with the FAA for the AIP eligible portion of the construction and construction administration service professional fees for the Project. The City anticipates that the FAA will issue an AIP grant agreement in the amount of \$7,850,331 prior to September 2019.

In addition to the approved Project and the Local Match funding from PFC Revenues, the FAA has approved reimbursement for a variety of smaller capital projects totaling \$3,522,027 and new projects totaling \$294,236 to be funded from PFC Revenues on a pay-as-you-go basis. After payment of debt service on the Bonds in any year, the Trustee will set aside and/or accumulate certain PFC Revenues for that purpose. See “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Administration of the Revenue Fund” herein.

The City is also undertaking various other capital projects at the Airport identified in the Master Plan during the construction of the Project. Such other improvements will be funded with other funding sources excluding PFC Revenues.

Estimated Sources and Uses of Funds

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the Bonds, together with other available funds, and will apply them as follows:

Sources of Funds

Par Amount of Bonds
 Net Original Issue Premium
 Total Sources of Funds

Uses of Funds

Project Fund
 Reserve Fund
 Underwriter’s Discount
 Costs of Issuance Fund ⁽¹⁾
 Total Uses of Funds

⁽¹⁾ Expenses include fees and expenses of Bond Counsel, Municipal Advisor, Disclosure Counsel and Trustee, rating fees, costs of printing the Official Statement, and other costs of issuance of the Bonds.

THE BONDS

General Provisions

Payment of the Bonds. The Bonds will be issued in the form of fully registered Bonds in the principal amount of \$5,000 each or any integral multiple thereof. Interest on the Bonds is payable at the rates per annum set forth on the inside front cover page hereof, on December 1, 2019 and each June 1 and December 1 thereafter (each, an “Interest Payment Date”) until maturity. Interest on the Bonds will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal on the Bonds is payable on June 1 in each of the years and in the amounts set forth on the inside front cover page hereof.

Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated after the fifteenth day of the month preceding such Interest Payment Date (each, a “Record Date”) and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) it is authenticated on or before November 15, 2019, in which event it shall bear interest from the Closing Date; *provided, however*, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest with respect to any Bond shall be payable to the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed by first class mail to the Owners at the respective addresses of such Owners as they appear on the Registration Books; provided however, that payment of interest may be made by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee at least five (5) days before the applicable Record Date. Principal of any Bond shall be paid by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

Book-Entry System. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Interest on and principal of the Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined herein), which will in turn remit such interest and principal to Beneficial Owners (as defined herein) of the Bonds (see “APPENDIX F - THE BOOK-ENTRY SYSTEM” herein). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Trustee will send any notices to Bond Owners only to DTC.

Redemption

Optional Redemption. The Bonds maturing on or before June 1, 2025 are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after June 1, 2026, are subject to redemption in whole, or in part among maturities on such basis and in such respective principal amounts as set forth in a Certificate of the City filed with the Trustee, and by lot within a maturity, at the option of the City, from any available source of funds, on any date on or after June 1, 2025, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest thereon to the date fixed for redemption without premium.

Mandatory Sinking Fund Redemption*. The Bonds maturing June 1, 20__ (“Term Bonds”) are subject to mandatory redemption in part by lot, at a redemption price equal to 100% of the principal amount thereof

* Preliminary, subject to change.

to be redeemed, without premium, in the aggregate respective principal amounts and on June 1 in the respective years as set forth in the following table; *provided, however*, that if some but not all of the Term Bonds have been redeemed under the optional redemption provisions described above, the total amount of all future sinking fund payments shall 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 in integral multiples of \$5,000 (as set forth in a schedule provided by the City to the Trustee).

**SCHEDULE OF MANDATORY SINKING FUND REDEMPTIONS
TERM BONDS MATURING JUNE 1, 20__**

<u>June 1</u>	<u>Principal</u>
<u>Year</u>	<u>Amount</u>

Notice of Redemption; Rescission of Notice. 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 any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Municipal Securities Rulemaking Board and to the Securities Depositories, 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 will 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.

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 cause notice of such rescission to be mailed, first class mail, postage prepaid, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books, and to the Municipal Securities Rulemaking Board and the Securities Depositories.

So long as DTC is the registered Owner of the Bonds, all such notices will be provided to DTC as the Owner, without respect to the beneficial ownership of the Bonds. See “APPENDIX F - THE BOOK-ENTRY SYSTEM.”

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee shall select the Bonds of such maturity to be redeemed by lot. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately 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.

Partial Redemption. If only a portion of any Bond is called for redemption, then upon surrender of such Bond the City shall 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.

Parity Debt

The City will redeem its 2006 Airport Passenger Facility Charge Subordinate Refunding Revenue Bonds (“2006 Bonds”) and its 2008 Airport Passenger Facility Charge Subordinate Refunding Revenue Bonds (“2008 Bonds”) in full on or about July 15, 2019. Therefore, on the Closing Date, there will be no outstanding debt secured by a pledge of or a lien on PFC Revenues other than the Bonds.

The City may issue additional obligations payable from PFC Revenues on a parity basis with the Bonds (“Parity Debt”), subject to the following conditions:

- (a) The proceeds of such Parity Debt are applied to pay the costs of Approved Airport Projects or Future Approved Airport Projects;
- (b) The City shall have obtained a letter or other document from the FAA under which the City is authorized to collect additional PFC Revenues in an amount which is at least equal to the aggregate amount of principal and interest coming due and payable on such Parity Debt.
- (c) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing.
- (d) The PFC Revenues for the most recent 12-month period are at least equal to 1.75 times the annual debt service on the Outstanding Bonds and Parity Debt, including the Parity Debt being issued.
- (e) The Supplemental Indenture or other document authorizing the issuance of such Parity Debt shall provide that:
 - (i) interest on the Parity Debt is payable on June 1 and December 1 in each year of the term of the Parity Debt, except that interest during the first twelve month period may be payable on any June 1 or December 1;
 - (ii) the principal of the Parity Debt is payable on June 1 in any year in which principal is payable; and
 - (iii) an amount is deposited in a reserve fund from the proceeds of the sale of the Parity Debt in an amount equal to the maximum permitted under applicable federal tax law, or a qualified reserve fund credit instrument is issued to fund the reserve fund in such amount.

Any Parity Debt issued by the City shall be secured by a pledge of and lien on the PFC Revenues which is on a parity with the pledge and lien which secures the Bonds. However, such Parity Debt will not be secured by or payable from amounts held in the Reserve Fund established for the Bonds.

Except for Parity Debt issued under the conditions described above, the City shall not issue bonds, notes or other obligations which are payable from PFC Revenues.

Scheduled Debt Service on the Bonds

The following is a schedule of semi-annual Installment Payments and therefore the total scheduled debt service on the Bonds, assuming no optional redemptions are made.

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Annual Debt Service</u>
December 1, 2019				
June 1, 2020				
December 1, 2020				
June 1, 2021				
December 1, 2021				
June 1, 2022				
December 1, 2022				
June 1, 2023				
December 1, 2023				
June 1, 2024				
December 1, 2024				
June 1, 2025				
December 1, 2025				
June 1, 2026				
December 1, 2026				
June 1, 2027				
December 1, 2027				
June 1, 2028				
December 1, 2028				
June 1, 2029				
December 1, 2029				
June 1, 2030				
December 1, 2030				
June 1, 2031				

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General

Pursuant to the Indenture, the Bonds are payable from and secured by a pledge of and lien on PFC Revenues, and amounts on deposit in the Revenue Fund, the Debt Service Fund, the Redemption Fund, the Reserve Fund, the Future Capital Account of the Capital Fund and investment earnings thereon, all as set forth in the Indenture and in the manner described herein.

The City may issue additional Parity Debt under certain conditions (see “THE BONDS - Parity Debt” herein). The lien of and the pledge of PFC Revenues to pay the Bonds and the obligation to perform the contractual provisions made by the Indenture will be on a parity with the lien and pledge under any indenture securing Parity Debt.

The Bonds are not secured by, and the Owners of Bonds have no security interest in or mortgage on, the property of the Airport or of the City, and the Bonds are not secured by a pledge of revenues other than the pledge of PFC Revenues. Default in the payment of the Bonds will not result in loss of, or any lien on, any property of the City. Should the City default in the payment of the Bonds the Trustee (1) may declare all unpaid principal, together with accrued interest at the rate or rates specified on the respective outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable, and (2) take whatever action at law or in equity that may appear necessary or desirable to accelerate the principal of the Outstanding Bonds, or enforce performance and observance of any obligation, agreement or covenant of the City under the Indenture. See “RISK FACTORS” and “APPENDIX A - SUMMARY OF THE INDENTURE - Events of Default and Remedies.”

The Bonds are limited obligations of the City. The Bonds do not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation. The Bonds do not constitute a debt or liability of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. Neither the General Fund of the City or any operating revenues of the Airport other than PFC Revenues are pledged to or liable for the repayment of the Bonds.

Imposition of Passenger Facility Charge by City

The City received permission to impose a \$3.00 Passenger Facility Charge per qualifying enplaned passenger at the Airport beginning October 1992, and to use Passenger Facility Charges collected to finance specified projects (“PFC Projects”) described in the Airport’s approved Imposition and Use Approval (the “Use Approval”). The Use Approval has been modified from time to time to increase the Passenger Facility Charge to \$4.50, to add additional eligible projects to be funded and to increase the total authorized amount of Passenger Facility Charges to be collected to pay for PFC Projects.

The City was permitted to impose a Passenger Facility Charge of \$4.50 per qualifying enplaned passenger at the Airport beginning January 1, 2002. Currently, the City may collect the Passenger Facility Charge until the earlier of October 1, 2037 or the date on which the total Passenger Facility Charges collected since implementation in 1992, plus interest thereon, equals \$140,310,796 (the “PFC Limit”). This amount includes \$48,078,877 that was added by the 2017 PFC Approval and only that amount will remain available as of the Closing Date to pay the Bonds based on Passenger Facility Charges expected to be collected through June 30, 2019. Subsequent to the issuance of the Bonds, the FAA is expected to reduce the 2017 PFC Approval to an amount sufficient to pay the Bonds and the additional approved pay-go projects included in the 2017 PFC Approval.

Pursuant to the PFC Act, the City may, without consultation with the airlines or public comment, but with the approval of the FAA, institute an increase in the PFC Limit of: (a) 25% or less of the original approved amount for a specific PFC Project if the original approved amount was more than \$1,000,000; or (b) any amount if the original approved amount for a specific PFC Project was less than \$1,000,000 and the amended approved amount of the project remains below \$1,000,000.

The anticipated PFC Limit as adjusted for the Bonds to be issued and the redemption of the bonds issued to finance earlier approved projects, and the amount expected to be collected under the PFC Limit in future years (the “PFC Balance”) is as follows:

**TABLE NO. 1
PFC LIMIT AND PFC BALANCE
as of May 2019**

	<u>Previously Approved</u>	<u>2017 PFC Approval</u>	<u>Total*</u>
Current authorization	\$88,415,656	\$51,895,140	\$140,310,796
Reduction due to early redemption of 2006 Bonds and 2008 Bonds	(16,076,881)*	-	(16,076,881)
Reduction due to lower bond financing charges ⁽¹⁾	<u>-</u>	<u>(18,060,000)*</u>	<u>(18,060,000)</u>
Estimated PFC Limit after issuance of the Bonds	\$72,338,775*	\$33,835,140*	\$106,173,915
Collected as of March 31, 2019	(71,996,857)	-	(71,996,857)
Expected Collections through June 30, 2019	<u>(341,918)</u>	<u>(721,082)</u>	<u>(1,063,000)</u>
Estimated to be collected under PFC Limit	\$ -	\$33,114,058*	\$ 33,114,058

⁽¹⁾ The 2017 PFC Approval included \$47,257,795 for payment of principal and interest on the Bonds, which will be adjusted to the actual debt service on the Bonds after issuance.

* Preliminary, subject to change.

Further, the PFC Limit may be increased from time to time to provide for additional PFC projects to be funded with Parity Debt or on a pay-as-you-go basis. The City expects to submit additional applications to the FAA to request PFC funding for a number of improvements at the Airport (see “THE AIRPORT - Airport Master Plan” herein) as well as future AIP grant local matching funds that are for improvements that are eligible to be funded with Passenger Facility Charges.

Covenant to Comply With the Federal PFC Act

The City, acting by and through the Airport Executive Director, the City Council or otherwise, has covenanted in the Indenture to faithfully and punctually perform or cause to be performed all duties with respect to Passenger Facility Charges, the PFC Revenues and the PFC Projects financed with the proceeds of the PFC Bonds, as defined below, required by the Constitution and laws of the State and the various resolutions, ordinances and other instruments of the City, including, without limitation, the proper segregation of the proceeds of the Bonds and PFC Revenues and their application from time to time to the respective accounts provided therefor. “PFC Bonds” is defined to mean the Bonds or any Parity Debt, the proceeds of which were or are to be used to pay for eligible projects specified in the Use Approval, as amended.

The City has covenanted in the Indenture that it will comply with all provisions of the PFC Act and the PFC Regulations applicable to the City, and that it will not take any action or omit to take any action with respect to the Passenger Facility Charges, the PFC Revenues, the PFC Projects or otherwise if such action or omission would, pursuant to the PFC Regulations, cause the termination of the City’s authority to impose a Passenger Facility Charge or prevent the use of the PFC Revenues as contemplated by the Indenture.

Without limiting the generality of the foregoing, the City has covenanted in the Indenture that, to the extent necessary to comply with the foregoing covenant, it will:

- (a) impose a Passenger Facility Charge to the full extent authorized;
- (b) not unilaterally decrease the level of the Passenger Facility Charge to be collected from any passenger;
- (c) unilaterally increase the total PFC Limit pursuant to PFC Regulations §158.37(a) to the extent necessary to pay the Debt Service of the Bonds;
- (d) apply for an additional increase in the PFC Limit pursuant to PFC Regulations §158.37(b) to the extent that the City projects such increase may be necessary to pay the Debt Service on the Bonds;
- (e) not impose any noise or access restriction not in compliance with the Airport Noise and Capacity Act of 1990, Pub. L. 101-508, Title IX, Subtitle D;
- (f) take all action reasonably necessary to cause all collecting air carriers to collect and remit to the City all Passenger Facility Charges required by the PFC Regulations to be so collected and remitted; and
- (g) contest any attempt by the FAA to terminate or suspend the City's authority to impose, receive or use Passenger Facility Charges prior to the charge expiration date or the date the PFC Limit has been reached.

See the caption "Termination of Authority to Impose a Passenger Facility Charge" below for a description of the circumstances in which the Administrator (the "Administrator") of the FAA may terminate the City's authority to impose a Passenger Facility Charge.

So long as the Bonds and any Parity Debt is Outstanding, the City is required under the Indenture to set aside all PFC Revenues, upon their receipt from time to time by the City, in the Revenue Fund which is required to be maintained by the City Finance Director and Treasurer separate and apart from all other City funds.

Termination of Authority to Impose a Passenger Facility Charge

The Administrator may terminate the City's authority to impose the Passenger Facility Charge:

- (1) if the Administrator determines that the City is in violation of certain provisions of the Airport Noise and Capacity Act of 1990 relating to noise and access restrictions;
- (2) if the Administrator determines that the PFC revenue is excessive or cannot determine that such revenue is being used for approved projects in accordance with the Use Approval or with the PFC Act;
- (3) if project implementation does not commence within the time period specified in the PFC Act (generally 2 years from approval of the PFC application); or
- (4) if the City is otherwise in violation of the PFC Act.

If any approval in connection with the City's authority to use the Passenger Facility Charge for a specific project is withdrawn or terminated, the FAA could terminate the City's authority to use the PFC Revenues for that project. See "RISK FACTORS - Passenger Facility Charges - Termination of PFCs."

The FAA termination provisions provide a variety of procedural safeguards, including an informal resolution procedure before commencement of proceedings to terminate the City's authority to impose a Passenger Facility Charge, which the FAA will commence only if the FAA determines that informal resolution is not successful. In addition, termination proceedings include a period of time to allow the City to correct any defect the FAA has identified or to attempt to work out a compromise with the FAA that will allow the Passenger Facility Charge revenue stream to continue uninterrupted. The City's authority to impose a Passenger Facility Charge and use the PFC Revenues will continue for at least 130 days from the commencement of the informal resolution procedures.

The regulations under the Airport Noise and Capacity Act also contain significant procedural safeguards to ensure that the City's authority to impose a Passenger Facility Charge would not be summarily terminated. Most significantly, the City can under any circumstance prevent termination of its Passenger Facility Charge authority by suspending the effectiveness of any noise or access restriction in question, until the legal sufficiency of the restriction, and its impact on the City's Passenger Facility Charge authority, has been determined.

If the Administrator determines that revenue derived from a Passenger Facility Charge is excessive or is not being used in accordance with the PFC Act, the Administrator may set off such amounts as may be necessary to ensure compliance with the PFC Act against federal grants otherwise payable to the City under the Airport and Airway Improvement Act of 1982. See the caption "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS - Covenant to Comply with the Federal PFC Act" above for a description of the covenant by the City to comply with the PFC Act.

The City reports that it has never had a dispute with the FAA pertaining to the use and collection of the Passenger Facility Charge, the spenddown of funds for approved projects or for a violation of the Noise and Capacity Act of 1990.

Calculation of PFC Revenues Available Under the PFC Limit

The following definitions are from the Indenture and capitalized terms used below have the meanings set forth in the Indenture. See "APPENDIX A - SUMMARY OF THE INDENTURE."

"PFC Balance" means, as of each June 30, the PFC Limit less the cumulative amount of PFC Revenues received by the City, together with earnings thereon.

"Projected Bond Administrative Expense" means, to the extent payable within the PFC Limit, a cumulative amount not to exceed \$30,000 multiplied by the number of years remaining to the scheduled maturity of the Bonds and any Parity Debt.

No later than February 1 each fiscal year, the City shall calculate:

- (1) the remaining Debt Service on the Outstanding Bonds and any Parity Debt plus the Projected Bond Administrative Expense as of June 30 of the prior fiscal year;
- (2) the PFC Balance; and
- (3) the balance in the subaccounts of the Capital Fund, if any, established as described below under "Administration of the Revenue Fund and PFC Revenue Fund" as of June 30 of the prior fiscal year.

Administration of the Revenue Fund and PFC Revenue Fund

Revenue Fund. The City will establish the Revenue Fund, which it will hold and maintain for the purposes and uses set forth in the Indenture. The City shall deposit all PFC Revenues in the Revenue Fund promptly upon the receipt thereof. On the last Business Day of each month, the City will transfer any PFC Revenues on deposit in the Revenue Fund to the Trustee for deposit in the PFC Revenue Fund.

PFC Revenue Fund. The Trustee will establish the PFC Revenue Fund under the Indenture. The Trustee shall apply amounts in the PFC Revenue Fund for the following purposes and in the following order of priority:

- (a) Transfers to the Debt Service Fund. The Trustee will establish the Debt Service Fund (and within such fund, the Interest Account and the Principal Account). Not later than the fifth Business Day preceding the first calendar day of each month, the Trustee shall withdraw from the PFC Revenue Fund and transfer to the Interest Account of the Debt Service Fund all amounts received until such time during the Bond Year (that being the 12 months ending June 1 in each year) as the amount on deposit in the Interest Account equals the interest becoming due and payable on the Bonds and any Parity Debt for the Bond Year. After all required transfers to the Interest Account for the Bond Year have been made, not later than the fifth Business Day preceding the first calendar day of each month, the Trustee shall withdraw from the PFC Revenue Fund and transfer to the Principal Account of the Debt Service Fund all amounts received until such time during the Bond Year as the amount on deposit in the Principal Account equals the principal and sinking account payments, if any, becoming due and payable on the Bonds and any Parity Debt for the Bond Year.
- (b) Transfers to Replenish Reserve Fund. In the event there is then a deficiency in the Reserve Fund, the Trustee shall withdraw from the PFC Revenue Fund and transfer to the Reserve Fund an amount, if any, which is required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement (see “Reserve Fund” below).
- (c) Transfers to Bond Administrative Expense Fund. Each June 1, the Trustee shall withdraw from the PFC Revenue Fund and transfer to the City for deposit into the Bond Administrative Expense Fund an amount necessary, together with funds available therein, to pay all estimated costs to administer the Bonds and any Parity Debt in the current and succeeding fiscal year, as requested in a Certificate of the City filed with the Trustee. However, the City may not file a Certificate of the City with the Trustee until it has received approval from the FAA to pay such costs (either from the existing PFC Limit or from an increase in the PFC Limit).
- (d) Transfers to Capital Fund.
 - (i) The Trustee will establish the Capital Fund, and within such fund, a subaccount to be called the “2019 Capital Account.” On each June 1, the Trustee shall withdraw from the PFC Revenue Fund and deposit into the 2019 Capital Account all remaining amounts therein, free and clear of the lien of the Indenture, until such time as the aggregate of all such transfers to the 2019 Capital Account equal approximately \$3.2 million (the amount of the remaining pay-go projects approved in the 2017 PFC Approval and not funded prior to issuance of the Bonds). The City will submit requisitions to the Trustee to withdraw funds from the 2019 Capital Account. Such funds are not pledged to repay the Bonds.
 - (ii) After satisfying the deposit to the 2019 Capital Account, the Trustee will establish additional subaccounts within the Capital Fund designated “Future Capital Account” and “Approved Project Account.” Thereafter, on each June 1, the Trustee will

withdraw from the PFC Revenue Fund and deposit into the additional capital subaccounts all remaining amounts therein, to be applied to Future Approved Airport Projects, as defined below.

“Future Approved Airport Projects” means any additional capital projects of the Airport approved for funding with PFC Revenues by the FAA and not included in the 2017 PFC Approval.

Annually, the City shall provide a Report of Independent Financial Consultant stating as of June 30 of the prior fiscal year, (1) the amount of the Future Approved Airport Projects, (2) the PFC Limit, (3) the amount, if any, on deposit in the Future Capital Account to be transferred to the Approved Project Account, (4) the PFC Balance, and (5) that following such transfer to the Approved Project Account, the PFC Balance plus the amount, if any to remain, on deposit in the Future Capital Account is greater than the Debt Service on the Outstanding Bonds and any Parity Debt plus the Projected Bond Administrative Expense. The City will submit requisitions to the Trustee to withdraw funds from the Approved Project Account. Once deposited in the Approved Project Account, such funds are not pledged to repay the Bonds.

At such time as the PFC Limit is reached and funds remain in the Future Capital Account, the Trustee shall transfer a portion of such funds to the Interest Account and Principal Account each year in the amount necessary to pay debt service on the Bonds and any Parity Debt. At that time, the City shall provide a Report of Independent Financial Consultant stating that the remaining funds in the Future Capital Account are sufficient to pay the remaining principal and interest on the Bonds and any Parity Debt and no further transfers to the Approved Project Account will be permitted.

The City may also direct the Trustee to apply any amounts on deposit in the Future Capital Account to redeem Bonds (and any Parity Debt) in accordance with the optional redemption provisions of the Indenture.

Reserve Fund. The Reserve Fund is established under the Indenture to be funded in an amount equal to the “Reserve Requirement.” As defined in the Indenture, the term “Reserve Requirement” means an amount equal to the least of (a) maximum annual debt service on the Bonds, (b) 125% of average annual debt service on the Bonds, and (c) 10% of the initial principal amount of the Bonds, which is calculated to be \$2,500,000* with respect to the Bonds at closing.

Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Reserve Fund shall be applied solely to the payment of principal and interest due with respect to the Bonds. If, on any Interest Payment Date, the moneys available in the Debt Service Fund do not equal the amount of the principal, interest and redemption premium (if any) with respect to the Bonds then coming due and payable, the Trustee shall apply the moneys available in the Reserve Fund to pay debt service by transferring the amount necessary for this purpose to the Debt Service Fund or shall draw on the Qualified Reserve Fund Credit Instrument (as defined below) and apply amounts received from such draw to pay debt service on the Bonds.

The Indenture provides that in lieu of a cash deposit, the City may satisfy all or a portion of a Reserve Requirement by means of a Qualified Reserve Fund Credit Instrument (see “APPENDIX A - SUMMARY OF THE INDENTURE” herein). The amounts on deposit in the Reserve Fund from proceeds of the Bonds are not available to pay debt service on Parity Debt, if any. Any Qualified Reserve Fund Credit Instrument issued with respect to the Bonds would not be available to pay debt service on Parity Debt, if any.

* Preliminary, subject to change.

If the City were to deposit a Qualified Reserve Fund Credit Instrument into a Reserve Fund with respect to the Bonds, the City is not required under the Indenture to replace the Qualified Reserve Fund Credit Instrument with cash or a replacement instrument in the event the ratings of the reserve policy provider decline or are withdrawn.

THE AIRPORT

The Airport is a primary commercial service airport comprising approximately 940 acres and located approximately 2.5 miles from the City's central business district. The Airport is owned by the City and operated by the City's Department of Aviation, which is responsible for the operation and maintenance of all Airport facilities, except navigational aids owned and operated by the FAA.

Management

Thomas Nolan, A.A.E., the Airport's Executive Director (the "Director"), is the chief executive officer of the Airport. The Director reports to David H. Ready, Esq., Ph.D., the City Manager of the City. The Director is assisted by the Assistant Airport Director, the Deputy Director - Operations & Maintenance, the Airport Administration Manager, the Airport Security Coordinator and the Airport Operations Manager, together with additional staff of 68 full-time equivalent employees who are responsible for the administration, operation, protection and maintenance of the Airport's facilities. The City expects to add positions of Air Service and Business Development Manager and Projects Manager in Fiscal Year 2019-20.

A nineteen-member Airport Commission also provides advisory direction on land acquisition and development, project financing, facility leases, and budget, and is composed of representatives from the City, the County and other cities throughout the Coachella Valley.

Air Trade Area

Air Trade Area. The geographical area served by an airport is commonly known as the airport's "air trade area." The borders of an airport's air trade area are influenced by the location of other metropolitan areas and their associated airport facilities. While the Airport is primarily an origination and destination ("O&D") airport and principally serves the cities in the Coachella Valley and surrounding area, the air trade area ("Air Trade Area") for the Airport consists of the entire Riverside-San Bernardino-Ontario metropolitan statistical area.

The Coachella Valley is a desert valley encompassing approximately 300 square miles, bounded on the west by the San Jacinto Mountains and the Santa Rosa Mountains and bounded on the north and east by the Little San Bernardino Mountains. The Coachella Valley consists of the nine cities: Palm Springs, Desert Hot Springs, Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Indio, and Coachella. The Coachella Valley is notable for its high seasonal population, as well as its outdoor recreational offerings, visitor experiences, and world-class events which spurs demand for inbound passenger demand.

Other Airports. The Airport is the only public-use airport providing air carrier service within Riverside County and the Coachella Valley. The closest commercial service airport to the Airport is Ontario International Airport in San Bernardino County, at a driving distance of approximately 68 miles. Ontario International Airport is a medium hub airport, which recorded 2.5 million enplaned passengers in 2018.

The Airport also has a significant role in providing general aviation services. There are only two other airports within the Coachella Valley that serve general aviation. Bermuda Dunes Airport (UDD) and Jacqueline Cochran Regional Airport (TRM) are located approximately 13 miles southeast of the Airport and 21 miles southeast of the Airport, respectively. These facilities cater exclusively to general aviation aircraft.

Demographics and Economic Factors. To a large degree, the demand for air transportation at an airport is dependent upon the demographic and economic characteristics of the airport's air trade area. This relationship is particularly true for O&D passenger traffic, which has historically been the largest component of demand at the Airport. There is typically a positive correlation between population growth in a local area and air travel demand. Tourism, as described below, also affects air travel demand at the Airport. The City estimates that 69% of the enplaned passengers at the Airport are visitors to and not residents of the Air Trade Area.

Population growth in the Air Trade Area between calendar year 1998 and calendar year 2018 (2.1 percent compound annual growth rate or "CAGR") was greater than that experienced by California (1.0 percent CAGR) and the nation (0.9 percent CAGR) during this period. According to the most recent U.S. Census Bureau data, the Air Trade Area is presently the 89th-fastest growing metropolitan area in the United States, gaining approximately 156 new residents each day. Per capita personal income in the Air Trade Area was lower than in the United States between calendar year 2008 and calendar year 2018. The Air Trade Area's per capita personal income in calendar year 2018 (\$34,556) was 25 percent lower than per capita personal income in the United States (\$46,097).

Per capita personal income in the Air Trade Area is projected to increase at a CAGR of 1.1 percent between calendar year 2018 and calendar year 2028, which is comparable to the projected CAGR of 1.2 percent for the United States.

Between calendar year 2007 and calendar year 2017, the Air Trade Area's labor force grew at a CAGR of approximately 1.4 percent; this is higher than the United States during the same period, which grew at a CAGR of 0.5 percent.

Travel and Tourism. The Airport's Air Trade Area and the Greater Palm Springs area are both popular tourist destination known for its warm weather, upscale amenities, and desert landscape.

In the Air Trade Area, Joshua Tree National Park is known for its hiking, camping, rock climbing, and ranger programs. Mount San Geronio, located in the San Bernardino Mountains, is the tallest peak in Southern California.

The Coachella Valley features 125 golf courses and clubs and hosts numerous golf tournaments each year. Additional tourist attractions include the Palm Springs International Film Festival, Desert X art exhibition, Coachella Valley Music and Arts Festival, the Living Desert Zoo and Gardens, La Quinta Arts Festival, the Palm Springs International ShortFest, Greater Palm Springs Pride Week, the Club Skirts Dinah Shore Weekend, Modernism Week, Stagecoach Country Music Festival, the Aerial Tramway, the PGA Desert Classic and the BNP Paribas Open tennis tournament. Each of these events attract visitors to the area; the BNP Paribas Open alone draws over 400,000 visitors to the Air Trade Area each March.

The Palm Springs Convention Center is located near downtown Palm Springs and features 120,000 square feet of carpeted exhibit space, 21 breakout rooms, a 20,000-square-foot ballroom, an 18,000-square-foot lobby, and a 20,000-square-foot event lawn. The Convention Center is attached to the Renaissance Palm Springs Hotel, which provides an additional 30,000 square feet of meeting space and 410 guest rooms. In addition, over 1,600 hotel rooms are located within walking distance from the Convention Center. The Convention Center hosts over 100 events each year and had over 134,000 attendees in 2018.

The City's Downtown Palm Springs development project is also approaching completion. The Downtown Palm Springs development is a \$150-\$180 million commercial, hotel and residential development in the heart of the City's downtown area. This development replaced an obsolete enclosed mall with new city streets throughout a 13-acre site and effectively incorporates both residential and retail uses into an urban village presenting a pedestrian-friendly environment with a number of plazas and walkways. The City funded \$43 million in infrastructure and project improvements for the Downtown Palm Springs development.

The development has reintegrated a property that had been massed into a monolithic “superblock” back into the downtown street grid, resulting in a strong public gathering place comprised of well-designed public spaces linked by a total entertainment and retail environment. The Kimpton Rowan Palms Springs Hotel, a six-story 4-star boutique hotel, opened in Downtown Palm Springs in 2017. Three new commercial commercial/office and retail-mixed use buildings are also open with tenants such as H&M, West Elm, Blaze Pizza and Starbucks Reserve. The Downtown Palm Springs development has been a catalyst for other development in and around downtown, including a 150-room Andaz Hotel (a Hyatt luxury brand), under construction and slated to open in 2019.

According to the Greater Palm Springs Convention and Visitors Bureau (“CVB”), 1 in 4 jobs in Greater Palm Springs is sustained by tourism. The estimated 13.6 million visitors to the area in 2017 were responsible for an estimated \$5.5 billion in visitor spending, a 10.0% increase over 2015 visitor spending. Tourism spending in Greater Palm Springs primarily consists of food and beverage, lodging, and retail spending; it is estimated by the CVB that each visitor spends a total of approximately \$402 per trip. An additional indicator of tourism’s impact on Coachella Valley’s economy is the amount of revenues associated with transient occupancy taxes. In the City of Palm Springs, transient occupancy tax is the City’s most significant revenue source; over the past ten years, transient occupancy tax in Palm Springs has increased 516%, from \$5.6 million in Fiscal Year 2008-09 to \$34.2 million in Fiscal Year 2017-18.

A number of hotels are currently under construction or are being planned in Coachella Valley over the next five years in order to address the increasing demand by visitors to the region. The additional hotels could bring over 1,000 additional rooms to the existing 15,000 rooms in the area.

Existing Facilities

Airfield

The airfield facilities at the Airport consist of the runways, taxiways, apron areas, and navigational aids.

Runways and Lighting. The airfield features two parallel runways-oriented northwest-southeast. The runways are separated by 700 feet (centerline-to-centerline), allowing for simultaneous operations on both runways during periods of good visibility.

- Runway 13R-31L is the primary runway at the Airport and is used by commercial air carrier and large general aviation aircraft. The grooved asphalt runway is 150 feet wide and 10,000 feet long, although displaced thresholds at each end restrict available landing distance to 6,857 feet on Runway 13R and 8,500 feet on Runway 31L. A 200-foot blast pad is available on each end of the runway to protect runway pavement from the effects of jet blast. The runway has precision markings and is equipped with high intensity edge lights and runway end identifier lights on each end.
- Runway 13L-31R is designated for small and medium size general aviation aircraft. The asphalt runway is 75 feet wide and 4,952 feet long. The runway has basic markings and is equipped with medium intensity edge lights and runway end identifier lights on each end.
- An airport surveillance radar (ASR) is installed at the Airport, which displays both weather and aircraft within the Airport’s terminal airspace. A very-high frequency omnidirectional range tactical air navigation (“VORTAC”) facility is located 4.5 nautical miles northeast of the Airport and is used by aircraft transiting the Palm Springs airspace. Another VORTAC, located 21.1 nautical miles southeast of the Airport, can be used for nonprecision instrument approach procedures published for the Airport.

- A visual approach slope indicator (VASI) is located on each end of Runway 13R-31L to provide pilots with vertical visual cues and guidance to the runway. Precision approach path indicators (PAPIs) provide similar guidance to pilots approaching either end of Runway 13L-31R.

Taxiways. The taxiway system at the Airport is a network of parallel, connecting, runway exit and runway access taxiways. Runway 13R-31L is served by two full-length parallel taxiways, Taxiways C and W. These taxiways are 75 feet wide. Taxiway W parallels Runway 13R-31L to the west and is separated by 500 feet, runway centerline to taxiway centerline, but bends 100 feet closer to the runway at the intersection of Taxiway K. Taxiway C is located 400 feet east of Runway 13R-31L and 300 feet west of Runway 13L-31R. Taxiway E is a 50-foot wide full-length parallel taxiway serving Runway 13L-31R and is separated by a centerline-to-centerline distance of 250 feet to the east. The taxiways west of Runway 13R-31L are designed to be used by aircraft with a wingspan up to 213 feet, such as a Boeing 747 or Boeing 787. Taxiway C can be used by aircraft with a wingspan up to 213 feet when Runway 13L-31R is not in use. The taxiways east of Runway 13L-13R are designed to accommodate aircraft with a wingspan up to 78 feet, such as most small regional jets and mid-size general aviation aircraft.

Apron Areas. Apron areas are paved portions of the airfield where aircraft stop/park for loading and unloading of passengers, cargo, maintenance, and aircraft storage. Apron areas can also be used for storage and operation of aircraft ground support equipment. Apron areas at the Airport include the terminal apron, fixed base operator (“FBO”) aprons, and a maintenance apron, totaling approximately 384,000 square yards, or about 79.5 acres. The concrete terminal apron encompasses the airside perimeter of the Bono Concourse and the Regional Concourse, which are described below and comprises approximately half of the total apron area at the Airport. The terminal apron surrounding the Bono Concourse includes 8 marked aircraft parking positions, all of which are served by passenger loading bridges. Four of the parking positions at the Bono Concourse can accommodate widebody aircraft and all eight positions can accommodate narrowbody aircraft. The apron area surrounding the Regional Concourse is marked for 11 ground-loaded narrowbody aircraft parking positions, but can also be utilized for narrowbody aircraft using ground boarding operations.

Terminal

The original passenger terminal complex at the Airport was constructed in 1967 and has undergone major expansions and renovations. The current passenger terminal complex comprises approximately 247,000 square feet, including enclosed portions of the terminal as well as open-air portions primarily utilized for circulation. The terminal complex is designed in a pier configuration, consisting of the following components:

- Terminal Processor – A one-story terminal processor contains pre-security circulation areas, inbound baggage/claim, rental car customer services area, airline ticketing and operations/offices, outbound baggage makeup and screening, the security screening checkpoint, Airport administration offices (in a mezzanine), concessions, USO offices, and restrooms. Major projects within this facility have included expansion of the ticket lobby and baggage claim in 1992 and expansion of the security screening checkpoint and baggage screening areas in 2007.
- Bono Concourse – The two-story Bono Concourse was opened in 1999 and features a unique fabric roof and pavilion-style configuration. Ground level areas include utilities and building maintenance, ground support equipment parking, airport maintenance and operations offices, airline operations areas, and concession storage areas. The second level includes post-security circulation areas, post-security concessions and storage, an open courtyard, restrooms and eight airline gates. The enclosed airline gates are clustered around the open-air concourse, separated by glass walls with sliding glass doors. Aircraft access is via loading bridges.
- Regional Concourse – The Regional Concourse was opened in 2007 and includes concessions, restrooms, and eleven airline gates, three of which are served by remote aircraft hard-stand parking

areas for use during peak season travel periods. A gift shop and restaurant/bar opened in 2009. An open landscaped walkway connects the landscaped plaza to the Regional Concourse. Construction of new fabric roof modules covering portions of the walkway was also completed in 2009. Aircraft access is via stairs and ramps.

- Landscaped Plaza – An open-air landscaped plaza connects the terminal processor to the Bono Concourse and the Regional Concourse. The plaza features softscape and hardscape landscaping, flight information, food and advertising concessions, and restrooms.

Curbside

The 750-foot long terminal curbside consists of a three-lane passenger terminal (inner) curb and a three-lane commercial (outer) curb separated by a median. The inner curb is primarily used for loading and unloading of private vehicles and some commercial vehicles (such as charter buses). The inner curb curbfront can accommodate approximately 16 private vehicles at one time and provides parking spaces for Airport police and operations vehicles. The two outermost lanes of the inner curb are through-lanes.

The 750-foot long commercial outer curb is primarily used for delivery and commercial vehicles. Delivery vehicles are permitted to park unattended at the innermost and outermost lanes of the outer curb. Airport operations vehicles and commercial vehicles (excluding taxis) may also park in the innermost and outermost lanes. Taxis and shuttles park in the inner lane across from the baggage claim area. The outer curb has space at the innermost and outermost lanes for approximately 10 private and 12 commercial vehicles, while the middle lane is a through-lane.

Ride share companies are allowed to operate and provide pick-ups and drop-offs at the Airport. Drop-offs are allowed curbside in front of the terminal building. Pick-ups are permitted at a designated area at the south end of the terminal.

Parking

On-Airport public parking is available in four connected surface lots adjacent to the terminal building. These lots accommodate all vehicles for short or long periods of time (no separate short-term or long-term lots). Public parking facilities are managed by a parking management firm. Current parking rates are \$1.00 for every twenty minutes and \$17.00 per day or 24-hour period (increasing to \$20.00 effective July 1, 2019). Payment is made via a prepay kiosk in the terminal lobby or via cash or credit card when existing the parking lot.

Total public parking capacity is approximately 900 spaces. During the holiday peak season, an 11-acre overflow parking lot on the former site of Taxiway J provides capacity for approximately 700 vehicles. Shuttle buses are provided to transport airline passengers from the overflow lot to the terminal complex.

A cell phone lot provides free short-term parking for arriving passengers to call meeters and greeters when they are ready to be picked up at the Airport.

An employee parking lot is located southeast of the public parking lots and can accommodate about 170 vehicles. A smaller employee parking lot is located just south of the terminal building. A multi-use lot is located in front of the terminal. In total, the Airport can accommodate approximately 200 employee vehicles.

Car Rental

Three companies operate eight rental car brands at the Airport: Hertz (Hertz, Dollar, and Thrifty), the Avis Budget Group (Avis and Budget), and Enterprise Holdings (Enterprise, Alamo, and National). Each brand has passenger-accessible counter space in the baggage claim area of the passenger terminal, as well as ready/return spaces located in a surface parking area immediately north of the baggage claim area. Off-

Airport rental car operators include Desert Rent-A-Car, located in Cathedral City, and Go Rentals, located in Palm Springs. Rental car maintenance and service facilities are located off-site from the ready/return lots but are on Airport property.

General Aviation

General aviation services at the Airport are provided by two FBOs: Atlantic Aviation on the east side of the Airport and Signature Flight Support, located northwest of the terminal building. Both FBOs lease airport property to provide general aviation services such as aircraft parking, fueling, supplies, towing, maintenance, car rental, catering, and storage for personal and corporate aircraft.

The Atlantic Aviation leasehold comprises approximately 28 acres, including aircraft apron, a terminal building, conventional hangars, t-hangars, a restaurant, landside/parking, and fueling. The Signature Flight Support leasehold comprises approximately 33 acres, including aircraft apron, a terminal building, condominium hangars, conventional hangars, t-hangars, landside/parking, and fueling. Both FBOs offer access to a shared U.S. Customs and Border Protection facility.

Support Facilities

Airport support facilities consist of the following:

- ARFF facility – The current aircraft rescue and firefighting (“ARFF”) facility is a dual role facility (Airport ARFF and City fire station) and can handle emergencies on- and off-Airport.
- Maintenance facility – SkyWest Airlines operates an aircraft maintenance facility east of Runway 13L-31R and north of the Atlantic Aviation FBO. The site area is approximately 5.6 acres and includes 50,000 square feet of office and hangar space, 11,630 square feet of apron, and 60,250 square feet of landside area. The facility provides maintenance for regional jet aircraft.
- Fuel storage – Both FBOs operate fuel storage facilities. Atlantic Aviation can store 60,000 gallons of jet fuel in three aboveground storage tanks and 13,000 gallons of jet fuel in three mobile tankers, in addition to 12,000 gallons of aviation fuel (“AVGAS”) in one aboveground storage tank and 1,000 gallons of AVGAS in one mobile tanker. Signature Flight Support can store up to 100,000 gallons of jet fuel in five aboveground storage tanks and 35,000 gallons of jet fuel in six mobile tankers, in addition to 12,000 gallons of AVGAS in one aboveground storage tank and 1,750 gallons of AVGAS in two mobile tankers. Signature Flight Support can also store 1,000 gallons of unleaded gasoline and 1,000 gallons of off-road diesel fuel in aboveground storage tanks.
- Air Traffic Control Tower (“ATCT”) – The current ATCT is located on the west side of the airfield (west of Taxiway W) and stands approximately 156 feet tall. Construction of the ATCT began in June 2010 and it became operational in July 2013.
- Air museum – The Palm Springs Air Museum is located on the Airport, east of Runway 13L-31R, and contains one of the world’s largest collections of World War II airplanes, along with aircraft from other eras. The museum includes four hangars totaling 86,000 square feet, in addition to an apron display area.

Airport Master Plan

In 2015, the City prepared a Master Plan Update for the Palm Springs International Airport (the “Master Plan”), in accordance with the FAA Advisory Circular (AC) 150/5070-6B, to identify the City’s strategy for the development of the Airport, including any expansion, if necessary, and modernization. The Master Plan was prepared to provide the framework needed to guide future airport development that will cost-effectively satisfy aviation demand, while considering potential environmental and socioeconomic impacts.

One of the elements analyzed in the Master Plan is the Airport's terminal facility requirements, including passenger ticketing and check-in requirements. The Master Plan determined that the terminal would be deficient in the airline ticket counter area over the near-term planning horizon, with congestion occurring in the ticketing lobby. The queuing area requires expansion to accommodate future growth of passenger volumes. Specifically, the Master Plan determined that the total ticketing area would need to be increased by 10,000 square feet by 2028 to address this growth. Measures were identified to improve the efficiency of the ticketing lobby, including use of self-check-in kiosks and implementation of common-use ticket counters.

Another element analyzed in the Master Plan is the Airport's outbound baggage and baggage screening requirements, which relate to the transport of baggage from the ticketing lobby, where passengers and baggage are checked in, to the outbound baggage screening area, where bags are screened by the TSA and sorted by the airlines for transport to outbound aircraft. The Master Plan determined that the existing outbound baggage system was inefficiently organized and undersized, requiring expansion by nearly 17,000 square feet by 2028.

On October 2015, the City approved the Master Plan and identified a Recommended Alternative that included an "Interior Terminal Reconfiguration Alternative." The Interior Terminal Reconfiguration would:

- Reconfigure interior space by pushing back (to the east) the ticket counters and reducing airline ticket office ("ATO") space inside the terminal;
- Modify the terminal footprint by constructing a supplemental 5,000 square foot building behind the terminal to accommodate displaced ATO functions; and
- Reconfigure and relocate the baggage screening area, and construct a new Baggage System.

Following adoption of the Master Plan, the City initiated the design process for the Project. See "THE FINANCING PLAN - The Project" herein.

Other improvements detailed in the Master Plan are necessary for the Airport to serve additional passenger traffic in the long run. Particularly, an expansion of the regional concourse to include 2-4 additional gates is planned. This expansion can only occur once the City relocates its Airport rental car operations.

The City collects a "customer facility charge" for vehicles rented at the Airport and has been accumulating such funds toward the construction of a multi-level parking structure to provide a consolidated rental car ready/return facility and additional airport parking for travelers and employees. The City also anticipates requesting the FAA to approve use of a portion of the PFC Revenues accumulated in the Future Capital Account to fund the regional concourse expansion.

The City cannot guarantee when such additional improvements may be completed and the level of passenger activity that can be accommodated without such improvements. See "Management's Discussion of Passenger Activity" below. The projections of enplanements by the Airport Consultant is not constrained by the physical facilities of the Airport or the need to complete an expansion of the regional concourse.

Airlines Serving the Airport

As shown in Table No. 2, ten scheduled passenger air carriers (collectively, the "Airlines") operate at the Airport as of May 2019. In addition to these eight domestic mainline carriers and two foreign carriers, four regional carriers provide service as affiliates of or subsidiaries for Alaska Airlines ("Alaska"), American Airlines ("American"), Delta Air Lines ("Delta"), and United Airlines ("United") on a contract basis.

TABLE NO. 2
AIRLINES SERVING THE AIRPORT
as of May 2019

Mainline Domestic <u>Airlines</u>	Foreign <u>Carriers</u> ⁽¹⁾	Regional <u>Airlines</u>
Alaska	Air Canada	Compass Air (Delta)
Allegiant	WestJet	Mesa (American, United)
American		SkyWest
Delta		(Alaska, American, Delta, United)
Frontier		Horizon (Alaska)
JetBlue		
Sun Country		
United		

⁽¹⁾ Flair Airlines initiated and suspended service from Edmonton International Airport within Fiscal Year 2018-19.

Source: Airport Consultant.

Airline Incentive Program. The Airport initiated a \$1 million air service incentive program in 2010 with the objective to provide marketing assistance to both new and existing airlines as an added incentive to introduce new routes or extend the current length of existing routes. To date, the program has supported thirteen new or expanded routes into Palm Springs by WestJet, Virgin America, Frontier, Allegiant, Alaska, Delta and Air Canada. Passenger activity increased over 18% between 2011 and 2013, and 2016 saw nearly 2 million passengers at the Airport for the first time.

The Airport has therefore enjoyed a relatively stable and growing scheduled passenger air carrier base between 2009 and 2019. American, Delta, United, Alaska, Allegiant, Sun Country, and WestJet Airlines have operated at the Airport throughout this period. Frontier Airlines (“Frontier”) initiated service in Fiscal Year 2011-12 with service to Denver International Airport (DEN). The airline discontinued service in Fiscal Year 2014-15; however, returned to the market with DEN service in Fiscal Year 2017-18 and added service to Chicago O’Hare International Airport (ORD) in Fiscal Year 2018-19.

Air Canada initiated service in Fiscal Year 2014-15 with nonstop service to Vancouver International Airport (YVR). Service to Toronto Pearson International Airport (YYZ) was added in Fiscal Year 2016-17 and service to Calgary International Airport (YYC) was added in Fiscal Year 2018-19.

JetBlue Airways (“JetBlue”) initiated service in Fiscal Year 2015-16 with nonstop service to John F. Kennedy International Airport (JFK). The airline added service to Boston Logan International Airport (BOS) in Fiscal Year 2018-19.

Flair Airlines (“Flair”) initiated service in Fiscal Year 2018-19 with nonstop service to Edmonton International Airport (YEG), which was suspended in the same year. It is currently unknown whether the airline will reinstate service at the Airport in Fiscal Year 2019-20.

In May 2019, the City implemented a new air service incentive program to include waiver of landing, boarding bridge, apron and hold room fees for new non-stop service or expanded service to and from targeted cities. The program is capped at a cumulative \$500,000.

Airline Use Agreements

The City has entered into Airline Use Agreements (the “Airline Use Agreements”) with all of the airlines providing substantial service to the Airport (referred to as “Signatory Airlines”). Non-signatory airlines are non-scheduled carriers consisting primarily of charter aircraft. The Airline Use Agreements provide for monthly payments to the Airport of fees, calculated annually, based on both landing weight and passenger volume, designed to cover all operating and substantial capital costs of the Airport. The fees charged to the Signatory Airlines include amounts for operating expenses and reserves, special capital project funds and other reserves. While the Airline Use Agreements require approval of the Signatory Airlines for certain types of capital projects, they do not require approval for other capital projects, including emergency projects and those funded (by at least 51%) with federal AIP grants.

The Airline Use Agreements permit recalculation of fees in certain circumstances to reflect unanticipated changes in operations, including revenue shortfalls. Management of the Airport currently believes that the Airline Use Agreements will not impose any substantial limitations on operations at the Airport in the immediate future and will permit operations as forecasted by the City. The Airline Use Agreements expire on June 30, 2019 and continue month-to-month under their existing terms unless terminated by either party upon thirty days’ notice. The City Council recently approved an extension of the Airline Use Agreements under the existing terms to December 31, 2020, to coincide with the expected end of construction of the Project. The City anticipates the Signatory Airlines will execute the extensions before June 30, 2019. Any airline may terminate its Airline Use Agreement with 364 days’ notice. While the Airport expects to re-negotiate the Airline Use Agreements when they expire, there can be no assurance that the Airport will be able to continue to pass through and collect costs from the airlines under the terms substantially similar to those under the current Airline Use Agreements.

Table No. 3 presents the historical share of enplaned passengers by airline at the Airport between Fiscal Year 2013-14 and Fiscal Year 2017-18. The top three airlines represented approximately 67.9% of enplanements in Fiscal Year 2017-18.

TABLE NO. 3
AIRLINES MARKET SHARE
Fiscal Years 2013-14 through 2017-18

<u>Airline</u>	<u>2014</u>		<u>2015</u>		<u>2016</u>		<u>2017</u>		<u>2018</u>	
	<u>Enplaned Passengers</u>	<u>Share</u>	<u>Enplaned Passengers</u>	<u>Share</u>	<u>Enplaned Passengers</u>	<u>Share</u>	<u>Enplaned Passengers</u>	<u>Share</u>	<u>Enplaned Passengers</u>	<u>Share</u>
Alaska ⁽¹⁾	201,298	21.7%	233,718	24.2%	235,323	24.5%	258,362	25.1%	265,566	23.9%
United ⁽¹⁾	220,409	23.7	199,512	20.6	199,733	20.8	214,026	20.8	248,058	22.3
American ⁽¹⁾	239,375	25.8	247,492	25.6	240,044	25.0	249,735	24.3	241,957	21.7
WestJet ⁽¹⁾	130,494	14.1	163,864	17.0	157,328	16.4	161,780	15.7	187,395	16.8
Delta ⁽¹⁾	56,690	6.1	62,694	6.5	63,135	6.6	65,060	6.3	70,636	6.3
Allegiant ⁽¹⁾	31,151	3.4	28,864	3.0	25,314	2.6	21,818	2.1	22,230	2.0
Sun Country ⁽¹⁾	18,452	2.0	18,094	1.9	18,287	1.9	18,891	1.8	20,341	1.8
JetBlue	-	0.0	-	0.0	9,755	1.0	20,694	2.0	20,068	1.8
Air Canada	-	0.0	6,699	0.7	10,102	1.1	18,124	1.8	18,822	1.7
Frontier	16,679	1.8	5,246	0.5	-	0.0	-	0.0	17,838	1.6
Other	<u>13,826</u>	<u>1.5</u>	<u>443</u>	<u>0.0</u>	<u>437</u>	<u>0.0</u>	<u>308</u>	<u>0.0</u>	<u>217</u>	<u>0.0</u>
Total	928,374	100.0%	966,626	100.0%	959,458	100.0%	1,028,798	100.0%	1,113,128	100.0%

⁽¹⁾ Each airline has operated at the airport for at least the past ten years.

Source: Airport Consultant.

Listed below are the top 20 domestic origin and destination markets for the Airport for Fiscal Year 2018.

<u>Rank</u>	<u>Market</u>	<u>Airport Code</u>	<u>Rank</u>	<u>Market</u>	<u>Airport Code</u>
1	Seattle	SEA	11	Washington, D.C.	IAD
2	San Francisco	SFO	12	Boston	BOS
3	Portland	PDX	13	Houston	IAH
4	New York	JFK	14	Salt Lake City	SLC
5	Chicago	ORD	15	Philadelphia	PHL
6	Minneapolis/St. Paul	MSP	16	Detroit	DTW
7	Denver	DEN	17	Atlanta	ATL
8	Bellingham	BLI	18	Spokane	GEG
9	Dallas/Fort Worth	DFW	19	Kansas City	MCI
10	Phoenix	PHX	20	St. Louis	STL

Source: Airport Consultant.

Historical Passenger Activity

The FAA classifies the Airport as a small-hub facility based on its percentage of nationwide passenger activity. The Airport ranked 87th in the United States in calendar year 2017 with 1.1 million enplaned passengers. Enplanements since 2016 have increased a total of approximately 16 percent.

The Airport's historical share of nationwide enplaned passengers has increased from approximately 0.10 percent in Fiscal Year 2008-09 to 0.13 percent in Fiscal Year 2017-18. The data show that, while passenger activity trends at the Airport have fluctuated, passenger growth at the Airport has often exceeded passenger growth for the nation. For the 10-year historical period from 2009 to 2018, both total and enplaned passengers at the Airport increased at a CAGR of 4.8 percent, compared to a CAGR of 2.4 percent nationwide.

Airport passenger activity levels did decrease by 8.6 percent in Fiscal Year 2008-09 following the global economic crisis. Other carriers have decreased their activity levels from time to time. Airport passenger activity levels decreased slightly in Fiscal Years 2010-11 and 2015-16. Alaska Airlines decreased service in 2011 from all destinations it served from the Airport and United Airlines decreased its flight frequency in 2016.

Table No. 4 shows an 11-year history of enplanements at the Airport.

**TABLE NO. 4
HISTORICAL ENPLANEMENTS**

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Enplaned</u> <u>Passengers</u>	<u>Annual</u> <u>Change</u>
2008	797,651	
2009	729,162	(8.6)%
2010	751,722	3.1
2011	744,843	(0.9)
2012	836,787	12.3
2013	878,321	5.0
2014	928,374	5.7
2015	966,626	4.1
2016	959,458	(0.7)
2017	1,028,798	7.2
2018	1,113,128	8.2

Source: Palm Springs International Airport.

See Table No. 3 for additional information on carriers and market share.

For a further discussion of projected enplanements for 2019 and future years, see “APPENDIX B - REPORT OF AIRPORT CONSULTANT” and “THE AIRPORT - Projected Debt Service Coverage.”

Passenger Facility Charges

Table No. 5 shows historical passenger enplanements on a fiscal year basis, with corresponding Passenger Facility Charges.

TABLE NO. 5
HISTORICAL PASSENGER FACILITY CHARGES
Fiscal Years 2008-09 through 2017-18

Fiscal Year Ending June 30	Enplaned Passengers	% PFC Eligible ⁽¹⁾	Passenger Facility Charges Revenues
2009	729,162	83.5%	\$2,674,410
2010	751,722	85.1	2,809,942
2011	744,843	85.2	2,785,021
2012	836,787	88.6	3,252,594
2013	878,321	92.9	3,417,312
2014	928,374	89.1	3,630,223
2015	966,626	88.1	3,736,615
2016	959,458	90.3	3,805,090
2017	1,028,798	89.4	4,038,572
2018	1,113,128	91.3	4,461,204

⁽¹⁾ Certain passengers are not required to pay Passenger Facility Charges. See “APPENDIX B - REPORT OF AIRPORT CONSULTANT.”

Source: Palm Springs International Airport.

For the eleven months ending May 31, 2019, the City received \$4,804,234 of PFC Revenues, not adjusted for accounts receivable as of June 30, 2018. For the eleven months ending May 31, 2018, the City received \$4,340,039 PFC Revenues, not adjusted for accounts receivable as of June 30, 2017.

Management’s Discussion of Passenger Activity

Fiscal Years 2008-09 through 2010-11. Passenger activity at the Airport increased 3.1 percent in Fiscal Year 2010, while seat capacity increased 3.8 percent. Nationwide, enplaned passengers decreased 0.2 percent in the same year as the economic recession continued to negatively affect passenger activity. United increased capacity to DEN and San Francisco International Airport (SFO) and WestJet increased capacity to YEG. Alaska discontinued seasonal service to San Jose International Airport (SJC) in Fiscal Year 2009-10, and also decreased service to SFO by discontinuing a third daily flight previously flown in the winter months. Passenger activity at the Airport decreased 0.9 percent in Fiscal Year 2010-11, while seat capacity decreased 8.0 percent. WestJet commenced seasonal service to YYZ, while Alaska decreased service to all destinations it served from the Airport in Fiscal Year 2010-11.

Fiscal Year 2011-12. Passenger activity increased 12.3 percent, to approximately 836,787, while seat capacity increased 14.5 percent. In November 2011, Frontier initiated service at the Airport, providing seasonal service (November to May) to DEN. WestJet commenced seasonal service to Winnipeg International Airport (YWG) and increased service to YEG and YYC, and Allegiant increased service to Bellingham International Airport (BLI) and introduced seasonal service to Stockton (SCK). Additionally, United introduced seasonal service to George Bush Intercontinental Airport (IAH) and increased service to SFO, and Alaska re-introduced seasonal service to SJC.

Fiscal Years 2012-13 through 2013-14. Passenger activity increased 5.0 percent in Fiscal Year 2012-13, while seat capacity increased 0.7 percent. Alaska initiated seasonal once-weekly service to JFK in December 2012. Allegiant initiated service to Oakland International Airport (OAK) and Eugene International Airport (EUG) in November 2012, but discontinued service to SCK that it began in Fiscal Year 2011-12. In Fiscal Year 2013-14, passenger activity increased 5.7 percent, while seat capacity increased 5.9 percent. In Fiscal Year 2013-14, Allegiant discontinued the OAK and EUG service it had begun the previous year. Delta increased service to Minneapolis-St. Paul International Airport (MSP) from a handful of flights in Fiscal Year 2012-13 to daily flights from December 2013 through May 2014.

Fiscal Year 2014-15. Passenger activity increased 4.1 percent, while seat capacity increased 5.9 percent. Air Canada introduced service at the Airport beginning in December 2014, with seasonal service to YVR at frequencies between once weekly and once daily depending on the month. WestJet increased its service to YVR and YYC with frequencies of up to twice daily to YVR and three times daily to YYC during the winter months. Delta introduced seasonal service to Seattle-Tacoma International Airport (SEA) daily from December 2014 through April 2015. Frontier ceased to operate at the Airport when it discontinued service to DEN in January 2015. Alaska upgauged Portland International Airport (PDX) and SEA service, using more 181-seat Boeing 737-900 aircraft. Alaska's seasonal service to Sacramento International Airport was not continued in Fiscal Year 2014-15. United significantly cut service to Los Angeles International Airport (LAX) which earlier in the year had a frequency of up to five times daily, but as of May 2015 was decreased to just once daily. The airline also discontinued service to LAS in September 2014.

Fiscal Year 2015-16. Passenger activity decreased 0.7 percent, while seat capacity increased 0.9 percent. JetBlue introduced service at the Airport, operating approximately five times weekly seasonal service to JFK beginning in January 2016. United decreased frequency but increased total seat capacity to DEN in Fiscal Year 2015-16, by replacing 50- and 70-seat regional jets with larger aircraft.

Fiscal Year 2016-17. Passenger activity increased 7.2 percent, while seat capacity increased 6.0 percent. Air Canada introduced seasonal service to YYZ in December 2016. Alaska upgauged its average aircraft size serving PDX, SEA, and SFO, replacing 144-seat Boeing 737-400 and 124-seat Boeing 737-700 aircraft with 181-seat Boeing 737-900 aircraft. United increased the number of months it provided once daily ORD service from three to six. JetBlue increased frequency to JFK by providing once daily service between November 2016 and May 2017.

Fiscal Year 2017-18. Passenger activity increased 8.2 percent while seat capacity increased 10.2 percent. American decreased frequency to PHX from seven to five daily flights; however, it maintained seat capacity by upgauging to 70- and 78-seat regional jets from 50-seat regional jets. Frontier re-initiated service to the Airport in November 2017 with seasonal service to DEN offering an average of four weekly trips to this market. United increased flights by 8.1 percent while increasing seat capacity by 27.7 percent by upgauging to larger aircraft from 50-seat regional jets on its approximately four-times-daily flights to SFO. The airline also increased frequency to DEN, going from between two and four daily flights in Fiscal Year 2016-17 to between two and five daily flights in Fiscal Year 2017-18, depending on the month.

Fiscal Year-To-Date 2018-19. Through the first seven months of Fiscal Year 2018-19, passenger activity increased 14.2 percent, while seat capacity increased 18.1 percent. United initiated seasonal service to Newark International Airport (EWR) in December 2018 and increased seat capacity to DEN, IAH, LAX, and ORD. Air Canada initiated seasonal service to YYC in October 2018, Sun Country initiated seasonal service to PDX and SFO in November 2018, Frontier initiated seasonal service to ORD in December 2018, Delta initiated seasonal service to Atlanta Hartsfield International Airport (ATL) in December 2018, and JetBlue initiated seasonal service to BOS in February 2019. Additionally, Flair introduced service at the Airport in December 2018 with nonstop service to YEG; however, the airline suspended service at the Airport in February 2019. The number of flights operated by Air Canada in April and May 2019 were slightly reduced due to taking 737 Max aircraft out of service in those months.

Although passenger activity is growing, the actual number of aircraft flying in and out of the airport has remained relatively constant. This is because the airlines are operating with higher load factors (more passengers per aircraft) and increased aircraft size from the 50-70 seat regional jet to the 130-150 seat medium jets. This results in fewer flights arriving and departing and less impact to surrounding communities. The following data chart illustrates how, the total number of aircraft (airlines + corporate + general aviation + military) trended during Fiscal Years 2013-14 through 2017-18 compared to passengers served by the Airport.

**TABLE NO. 6
NUMBER OF AIRCRAFT ARRIVING AND DEPARTING
AND NUMBER OF TOTAL PASSENGERS
Fiscal Years 2013-14 through 2017-18**

<u>Fiscal Year Ending June 30</u>	<u>Number of Aircraft</u>	<u>Average Seats Per Departure</u>	<u>Annual Passengers</u>
2014	33,243	84	1,914,402
2015	29,728	92	1,888,657
2016	30,672	104	1,998,206
2017	29,594	109	2,100,027
2018	32,098	117	2,237,018

Source: City of Palm Springs; Airport Consultant.

Historical Operating Results

Except for the PFC Revenues, no other revenues or assets of the City or the Airport are pledged to payment of the Bonds. Table Nos. 7 and 8 are included for general information regarding the scope of activity at the Airport and summarize net position and operating revenues, operating expenses and net revenues of the Airport for the five Fiscal Years 2013-14 through 2017-18, prepared by the City on the basis of its audited financial statements. The audited financial statements of the City, including the results of the Airport Enterprise, for the Fiscal Year ended June 30, 2018 are attached hereto as “APPENDIX C” and should be read in their entirety.

**TABLE NO. 7
CITY OF PALM SPRINGS
AIRPORT ENTERPRISE FUND STATEMENT OF NET POSITION
As of June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Assets					
Current:					
Cash and investments	\$ 25,632,040	\$ 28,391,694	\$ 29,607,626	\$ 33,547,333	\$ 40,205,165
Receivables:					
Accounts	2,047,931	2,529,593	2,545,997	2,884,011	2,603,803
Accrued interest	43,661	40,127	41,735	54,266	48,342
Inventories	16,764	16,597	15,674	16,117	16,652
Restricted:					
Cash with fiscal agent	<u>4,038,239</u>	<u>4,125,236</u>	<u>5,307,758</u>	<u>4,013,781</u>	<u>4,883,472</u>
Total Current Assets	<u>31,778,635</u>	<u>35,103,247</u>	<u>37,518,790</u>	<u>40,515,508</u>	<u>47,757,434</u>
Noncurrent:					
Capital assets, net of accumulated depreciation	<u>76,368,319</u>	<u>74,434,008</u>	<u>81,204,870</u>	<u>73,554,159</u>	<u>71,791,694</u>
Total Noncurrent Assets	<u>76,368,319</u>	<u>74,434,008</u>	<u>81,204,870</u>	<u>73,554,159</u>	<u>71,791,694</u>
Total Assets	<u>108,146,954</u>	<u>109,537,255</u>	<u>118,723,660</u>	<u>114,069,667</u>	<u>119,549,128</u>
Deferred Outflows of Resources					
Deferred charge on refunding	311,546	267,040	222,534	178,028	133,522
Deferred pension related items	<u>-</u>	<u>1,382,619</u>	<u>1,623,368</u>	<u>6,015,280</u>	<u>5,080,846</u>
Total Deferred Outflows of Resources	<u>311,546</u>	<u>1,649,659</u>	<u>1,845,902</u>	<u>6,193,308</u>	<u>5,214,368</u>

(Continued on next page)

**TABLE NO. 7
CITY OF PALM SPRINGS
AIRPORT ENTERPRISE FUND STATEMENT OF NET POSITION
As of June 30**

(Continued from previous page)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Liabilities					
Current:					
Accounts payable	1,146,985	3,703,224	1,650,189	1,631,957	3,236,530
Accrued liabilities	129,588	157,324	197,320	241,724	245,868
Accrued interest	590,887	527,439	485,796	378,168	298,311
Unearned revenues	62,298	140,068	138,235	237,393	272,603
Accrued compensated absences	482,039	365,562	618,882	578,215	810,331
Bonds, notes, and capital leases	<u>1,330,000</u>	<u>1,175,000</u>	<u>1,240,000</u>	<u>1,310,000</u>	<u>1,380,000</u>
Total Current Liabilities	<u>3,741,797</u>	<u>6,068,617</u>	<u>4,330,422</u>	<u>4,377,457</u>	<u>6,243,643</u>
Noncurrent:					
Accrued compensated absences	178,893	364,562	161,950	194,965	-
Bonds, notes, and capital leases	19,103,416	16,986,227	15,454,038	11,516,849	8,549,660
Net pension liability	<u>-</u>	<u>14,634,540</u>	<u>16,508,215</u>	<u>20,090,925</u>	<u>22,249,430</u>
Total Noncurrent Liabilities	<u>19,282,309</u>	<u>31,985,329</u>	<u>32,124,203</u>	<u>31,802,739</u>	<u>30,799,090</u>
Total Liabilities	<u>\$ 23,024,106</u>	<u>\$ 38,053,946</u>	<u>\$ 36,454,625</u>	<u>\$ 36,180,196</u>	<u>\$ 37,042,733</u>
Deferred Inflows of Resources					
Deferred pension related items	<u>-</u>	<u>3,261,612</u>	<u>1,001,034</u>	<u>1,927,201</u>	<u>448,098</u>
Total Deferred Inflows of Resources	<u>-</u>	<u>3,261,612</u>	<u>1,001,034</u>	<u>1,927,201</u>	<u>448,098</u>
Net Position					
Net investment in capital assets	56,246,449	56,539,821	64,733,366	60,905,338	61,995,556
Restricted for debt service	4,038,239	4,125,236	5,307,758	4,013,781	4,883,472
Unrestricted	<u>25,149,706</u>	<u>9,206,299</u>	<u>13,072,779</u>	<u>17,236,459</u>	<u>20,393,637</u>
Total Net Position	<u>\$ 85,434,394</u>	<u>\$ 69,871,356</u>	<u>\$ 83,113,903</u>	<u>\$ 82,155,578</u>	<u>\$ 87,272,665</u>

Source: City of Palm Springs Comprehensive Annual Financial Reports.

TABLE NO. 8
CITY OF PALM SPRINGS
AIRPORT ENTERPRISE FUND STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the year ended June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Operating Revenues					
Landing fees	\$ 2,027,810	\$ 3,374,880	\$ 3,581,583	\$ 3,812,263	\$ 4,544,314
Rentals	13,618,048	13,678,136	14,043,583	14,569,768	15,891,631
Concessions	865,880	939,756	904,251	945,729	869,756
Customer facility charges	-	-	-	-	2,290,030
Passenger facility charges	3,630,223	3,736,615	3,805,090	4,038,572	4,461,204
Miscellaneous	<u>3,017,625</u>	<u>3,064,375</u>	<u>2,902,987</u>	<u>3,159,819</u>	<u>1,167,259</u>
Total Operating Revenues	<u>23,159,586</u>	<u>24,793,762</u>	<u>25,237,494</u>	<u>26,526,151</u>	<u>29,224,194</u>
Operating Expenses					
Administration and general	1,352,878	1,350,263	985,482	1,871,939	3,365,268
Personnel services	8,820,234	9,231,093	10,069,242	10,495,851	11,176,060
Materials and supplies	275,672	355,192	273,990	387,498	420,123
Maintenance operations	-	-	-	8,500	11,929
Depreciation expense	7,581,238	7,355,780	7,406,943	7,851,030	6,851,969
Utilities	1,789,640	1,567,219	1,125,846	1,132,252	1,386,555
Other charges and services	<u>4,428,452</u>	<u>4,770,920</u>	<u>4,363,706</u>	<u>6,333,101</u>	<u>4,678,877</u>
Total Operating Expenses	<u>24,248,114</u>	<u>24,630,467</u>	<u>24,225,209</u>	<u>28,080,171</u>	<u>27,890,781</u>
Operating Income (Loss)	<u>(1,088,528)</u>	<u>163,295</u>	<u>1,012,285</u>	<u>(1,554,020)</u>	<u>1,333,413</u>
Nonoperating Revenues (Expenses)					
Interest revenue	341,885	189,222	187,595	96,286	74,851
Interest expense	(1,332,020)	(1,180,929)	(1,074,954)	(881,756)	(722,870)
Contributions	-	69,367	-	-	-
Intergovernmental ⁽¹⁾	-	-	-	-	3,120,082
Gain (loss) on disposal of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(101,945)</u>
Total Nonoperating Revenues (Expenses)	<u>(990,135)</u>	<u>(922,340)</u>	<u>(887,359)</u>	<u>(785,470)</u>	<u>2,370,118</u>
Income (Loss) Before Transfers and Contributions	(2,078,663)	(759,045)	124,926	(2,339,490)	3,703,531
Transfers out	(287,500)	(287,500)	(287,500)	(287,500)	(287,500)
Capital contribution	<u>11,788,567</u>	<u>2,180,401</u>	<u>13,405,121</u>	<u>1,519,902</u>	<u>-</u>
Change in Net Position	9,422,404	1,133,856	13,242,547	(1,107,088)	3,416,031
Net Position, Beginning of Year, as Previously Reported	<u>76,011,990</u>	<u>85,434,394</u>	<u>69,871,356</u>	<u>83,113,903</u>	<u>82,155,578</u>
Restatements	<u>-</u>	<u>(16,696,894)</u> ⁽²⁾	<u>-</u>	<u>148,763</u>	<u>1,701,056</u>
Net Position, Beginning of Year, as Restated	<u>76,011,990</u>	<u>68,737,500</u>	<u>69,871,356</u>	<u>83,262,666</u>	<u>83,856,634</u>
Net Position, End of Year	<u>\$85,434,394</u>	<u>\$69,871,356</u>	<u>\$83,113,903</u>	<u>\$82,155,578</u>	<u>\$87,272,665</u>

⁽¹⁾ FAA grants, previously recorded as capital contributions.

⁽²⁾ To account for the net pension liability under GASB No. 68.

Source: City of Palm Springs Comprehensive Annual Financial Reports.

Outstanding Debt

As of the Closing Date, there will be no outstanding debt secured by PFC Revenues other than the Bonds.

The City will redeem its 2006 Bonds and its 2008 Bonds in full on or about July 15, 2019.

Report of Airport Consultant

In connection with the issuance of the Bonds, the City retained Ricondo & Associates, Inc., Cincinnati, Ohio (the “Airport Consultant”) to prepare the Report of Airport Consultant, dated June 19, 2019, attached hereto as “APPENDIX B” (the “Report”), which describes the economic basis for air traffic at the Airport, historical trends in airline traffic, and key factors that may affect future airline traffic. The Report also presents air traffic and financial projections for Fiscal Years 2018-19 through 2028-29 and sets forth certain assumptions upon which the forecasts are based. These assumptions were provided by, or reviewed and adopted by the City at the time the Report was issued. The Report has been included in this Official Statement in reliance upon the reputation of the Airport Consultant as an expert in preparing forecasts and projections with respect to airports.

Projected Debt Service Coverage

The Report of Airport Consultant June 19, 2019 contains forward-looking statements based on a number of assumptions. The assumptions used reflect the best information currently available to the City and reliance on the knowledge and experience of the Airport Consultant. The assumptions underlying the Report of Airport Consultant, however, may not be realized, and the actual results of the operations of the Airport may vary substantially from those forecast in the Report of Airport Consultant. Reference is made to “RISK FACTORS” for a discussion of certain regulatory, economic and other factors that may adversely affect the achievement of the operations of the Airport as forecasted. In the opinion of management of the Airport, the factors that may have a material adverse effect on operations at the Airport include (1) a general national economic decline, reducing expenditures for discretionary air travel for vacations and conventions, (2) the departure from operations at the Airport by one or more airlines currently accounting for a significant percentage of passengers, (3) the bankruptcy of one or more airlines serving the Airport, (4) high fuel costs, (5) terrorist attacks or similar events and (6) further increases in the costs and inconveniences created by required security measures.

The Report of Airport Consultant should be read in its entirety, and all references to and excerpts from the Report of Airport Consultant should be analyzed in light of the foregoing statements.

The information in the following tables is taken from the Report of Airport Consultant.

The Airport Consultant’s forecast for Fiscal Year 2018-19 was developed using historical activity for the first seven months of Fiscal Year 2018-19 and considering published airline schedule data for the remainder of the year. Flight segment–level estimates of performance were based on trends of load factors and completion rates applied to published schedules. Scheduled airline seat capacity at the Airport for Fiscal Year 2018-19, as reported by Innovata, is anticipated to increase compared to Fiscal Year 2017-18. Seat capacity is scheduled to increase for all airlines serving the Airport compared to Fiscal Year 2017-18, with all but Allegiant and WestJet to experience double-digit growth. United, Air Canada, Sun Country, Frontier, Delta, and JetBlue all have initiated mostly seasonal service to new destinations in Fiscal Year 2018-19. United is also significantly increasing seat capacity to DEN, IAH, LAX, and ORD through April/May 2019. Load factors are expected to decrease in Fiscal Year 2018-19 (approximately 77 percent) compared to Fiscal Year 2017-18 (approximately 81 percent), as passenger demand growth trails additional seat capacity growth in the short term. Based on the schedule data and the load factor assumptions utilized in the near-term period, the enplaned passengers are forecast by the Airport Consultant to increase 16.4 percent in

Fiscal Year 2018-19, or approximately 182,376 passengers. The effect of Air Canada’s reduction of service in April and May (caused by removing 737 Max aircraft from service) is not taken into account.

The Airport Consultant’s long-term forecast through Fiscal Year 2028-29 was developed using socioeconomic regression analysis as described in “APPENDIX B - REPORT OF AIRPORT CONSULTANT.” Based on this analysis, enplanements and PFC Revenues are forecast as shown in Table No. 9.

The Airport Consultant’s long-term forecast through Fiscal Year 2028-29 is unconstrained and assumes the City will undertake capital improvement projects at the Airport to provide sufficient landside, airside, and terminal facility capacity to accommodate future passenger demand. These capital improvement projects include the Project, upgrades to the inbound baggage claim system, and expansion of the regional concourse. See “Airport Master Plan” herein. The City cannot guarantee that such additional capital improvement projects will be completed or will be completed in such timeframe to allow the forecasted enplanements to be achieved.

**TABLE NO. 9
FORECASTED ENPLANEMENTS AND PFC REVENUES
Fiscal Year 2018-19 through 2028-29**

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Enplaned</u> <u>Passengers</u>	<u>Annual</u> <u>Change</u>	<u>% PFC</u> <u>Eligible ⁽¹⁾</u>	<u>PFC</u> <u>Revenues</u>
2019	1,295,504	16.4%	87.9%	\$5,000,352
2020	1,331,485	2.8	87.9	5,139,231
2021	1,365,891	2.6	87.9	5,272,031
2022	1,401,067	2.6	87.9	5,407,802
2023	1,435,336	2.4	87.9	5,540,073
2024	1,469,424	2.4	87.9	5,671,643
2025	1,503,651	2.3	87.9	5,803,752
2026	1,537,567	2.3	87.9	5,934,661
2027	1,570,845	2.2	87.9	6,063,107
2028	1,603,531	2.1	87.9	6,189,266
2029	1,635,678	2.0	87.9	6,313,349

⁽¹⁾ Certain passengers are not required to pay Passenger Facility Charges. See “APPENDIX B - REPORT OF AIRPORT CONSULTANT.”

Source: Airport Consultant.

**TABLE NO. 10
DEBT SERVICE COVERAGE FROM FORECASTED FISCAL YEAR 2018-19 PFC REVENUES**

Fiscal Year 2018-19 Forecasted PFC Revenues	\$5,000,352
Maximum Annual Debt Service	\$2,500,000*
Coverage Ratio	2.00x*

Source: Airport Consultant and Municipal Advisor.

* Preliminary, subject to change.

RISK FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and/or interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

Factors Affecting the Airline Industry

General. Key factors that affect airline traffic at the Airport and the financial condition of the airlines, and, therefore, the amount of PFC Revenues available for payment of the Bonds, include: local, regional, national and international economic and political conditions; international hostilities; world health concerns; natural disasters; aviation security concerns; airline service and routes; airline airfares and competition; airline industry economics, including labor relations and costs; airline bankruptcies; availability and price of aviation fuel (including the ability of airlines to hedge fuel costs); regional, national and international environmental regulations; airline consolidation and mergers; capacity of the national air traffic control and airport systems; capacity of the Airport; and business travel substitutes, including teleconferencing, videoconferencing and web-casting. If aviation and enplaned passenger traffic at the Airport do not meet forecast levels, a corresponding reduction could occur in forecasted PFC Revenues.

The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic varies substantially with seasonal travel patterns. The profitability of the airline industry can fluctuate dramatically from quarter to quarter and from year to year, even in the absence of catastrophic events such as the terrorist attacks of September 11, 2001 and the economic recession that occurred in 2008 and 2009. Business decisions by airlines, such as the reduction or elimination of service to unprofitable markets, increasing the use of smaller, regional jets, airline mergers or consolidations and changing hubbing strategies have also affected air traffic at the Airport and could have a more pronounced effect in the future.

Following are just a few of the factors affecting the airline industry including, regional, national and global economic conditions, costs of aviation fuel, international conflicts and threats of terrorism, aviation security concerns and structural changes in the travel market.

Economic and Political Conditions. Historically, the financial performance of the air transportation industry has correlated with the state of the national and global economies. Past recessions in the U.S. economy have negatively impacted airline travel demand. With the globalization of business and the increased importance of international trade and tourism, the national economy has become more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities all influence passenger traffic at major United States airports. Concerns about hostilities and other perceived security and public health risks also affect travel demand to particular international destinations. Sustained future increases in passenger traffic at the Airport will depend on stable international conditions as well as national and global economic growth. Traffic at the Airport is also sensitive to growth in the population and fluctuations in the local economy of the area served by the Airport. For more information concerning the local and national economy, see “APPENDIX B - REPORT OF AIRPORT CONSULTANT - Demographic and Economic Analysis.”

Cost of Aviation Fuel. Airline earnings are significantly affected by changes in the price of aviation fuel. According to Airlines for America (an airline trade association, formally known as Air Transportation of America), fuel, along with labor costs, is one of the largest cost components of airline operations, and continues to be an important and uncertain determinant of an air carrier’s operating economics. There has been no shortage of aviation fuel since the “fuel crisis” of 1974, but any increase in fuel prices causes an increase in airline operating costs. Fuel prices continue to be susceptible to, among other factors, political

unrest in various parts of the world (particularly in the oil-producing nations in the Middle East and North Africa), Organization of Petroleum Exporting Countries policy, the rapid growth of economies such as China and India, the levels of inventory carried by industries, the amounts of reserves maintained by governments, disruptions to production and refining facilities and weather. Future significant and prolonged increases in the cost of aviation fuel would likely have an adverse impact on the profitability of the air transportation industry and hamper the recovery plans and cost-cutting efforts of certain airlines. See “APPENDIX B - REPORT OF AIRPORT CONSULTANT” for more information.

Aviation Security Concerns; Cyber Security. Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of international hostilities, terrorist attacks, increased threat levels declared by the Department of Homeland Security and world health concerns may influence passenger travel behavior and air travel demand. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Computer networks and systems used for data transmission and collection are vital to the efficient operations of the airline industry. Air travel industry participants, including airlines, the FAA, the Transportation Security Administration (“TSA”), the City, concessionaires and others collect and store sensitive data, including intellectual property, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers and employees. The secure processing, maintenance and transmission of this information is critical to air travel industry operations.

Despite security measures, information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Increasingly, government entities are being targeted by cyber-attacks seeking to obtain confidential data or disrupt critical services. A rapidly changing cyber risk landscape may introduce new vulnerabilities which hackers may exploit in attempts to effect breaches or service disruptions. Any such breach could compromise networks and the information stored there could be disrupted, accessed, publicly disclosed, lost or stolen. Any such disruption, access, disclosure or other loss of information could result in disruptions in the efficiency of the air travel industry, legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, operations and the services provided, and cause a loss of confidence in the air travel industry, which could ultimately adversely affect PFC Revenues.

No assurances can be given that the security and operational control measures of the City will be successful in guarding against any and each cyber threat or breach. Although the City maintains insurance coverage for cyber security losses should a successful breach ever occur, the cost of any such disruption or remedying damage caused by future attacks could be substantial and in excess of such insurance coverage.

Structural Changes in the Travel Market. Many factors have combined to alter consumer travel patterns. The threat of terrorism against the United States remains high. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations.

Additionally, consumers have become more price-sensitive. Capacity reductions by the Airlines which improve airline profitability have reduced seat availability resulting in higher fares. In addition, the availability of fully transparent price information on the internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. Consumers have shifted from purchasing paper tickets from travel agencies or airline ticketing offices to purchasing electronic tickets over the internet. This has made pricing and marketing even more competitive in the U.S. airline industry. Finally, smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing.

Expiration and Possible Termination of Airline Use Agreements

Under certain conditions, a Signatory Airline may terminate its Airline Use Agreement. If an Airline Use Agreement is terminated or expires, there can be no guarantee that the City and the Signatory Airline(s) will be able to reach a successor agreement to replace the Airline Use Agreement. The current Airline Agreements are scheduled to expire on June 30, 2019 and the City anticipates extending the existing terms of the Airline Use Agreements to December 2020. See “THE AIRPORT - Airline Use Agreements” herein.

Airport’s Largest Carriers

For the Fiscal Years ended June 30, 2018 and June 30, 2017, Alaska accounted for approximately 23.9% and 25.1%, respectively, of the total enplaned passengers at the Airport, United accounted for approximately 22.3% and 20.8%, respectively, and American accounted for 21.7% and 24.3%, respectively. If any of these airlines, or other airlines serving the Airport, were to reduce or cease service at the Airport, such flights would not necessarily be replaced by other airlines. While historically when airlines have reduced or ceased operations at the Airport other airlines have absorbed the traffic with no significant adverse impact on PFC Revenues, it is possible that were Alaska, United or American or another airline to cease or significantly cut back operations at the Airport, then PFC Revenues and costs for other airlines serving the Airport could be adversely affected.

Airline Mergers and Acquisitions

In recent years airlines have experienced increased costs and industry competition both domestically and internationally. As a result, airlines have merged and acquired competitors in an attempt to combine operations in order to increase cost synergies and become more competitive. The most recent examples of large mergers include Delta and Northwest in 2008, Midwest and Frontier in 2010, United and Continental in 2010, Southwest and AirTran in 2011, American and US Airways in 2013 and Alaska and Virgin America in 2016. Airline mergers affect service and traffic at airports when they consolidate facilities, optimize route networks, and route connecting traffic through other hubs. The impact on affected airports usually plays out within a few years, although sometimes immediately following the merger. The impact can be significant or trivial, depending upon whether the merging airlines have a large market share at the airport, they serve the same markets, and they carry significant connecting traffic through the airport.

Further airline consolidation remains possible and future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in gate utilization as airlines reduce duplicative capacity. Such decreases could result in reduced PFC Revenues and increased costs for the other airlines using the Airport.

Regulations and Restrictions Affecting the Airport

The operations of the Airport are affected by a variety of contractual, statutory and regulatory restrictions and limitations including, without limitation, the provisions of the Airline Use Agreements, the federal acts authorizing the imposition, collection and use of Passenger Facility Charges and extensive federal legislation and regulations applicable to all airports in the United States.

It is not possible to predict whether future restrictions or limitations on Airport operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or Passenger Facility Charge collections for capital projects for the Airport, whether any additional requirements will be funded by the federal government or require funding by the Authority, or whether such restrictions or legislation or regulations would adversely affect PFC Revenues.

Climate Change Issues and Possible New Regulation

Climate change concerns are shaping laws and regulations at the federal and State levels that could have a material adverse effect on airlines operating at the Airport and could also affect ground operations at the Airport. While the U.S. Environmental Protection Agency (the “EPA”) does not currently regulate greenhouse gas (“GHG”) emissions from aircrafts, it has taken steps toward regulation of GHG under existing federal law. These steps may in turn lead to further regulation of aircraft GHG emissions. On July 5, 2011, the United States District Court for the District of Columbia issued an order concluding that EPA has a mandatory obligation under the Clean Air Act to consider whether the GHG and black carbon emissions of aircraft engines endanger public health and welfare. On August 15, 2016, EPA found that GHG emissions from certain aircraft cause and contribute to pollution that endangers public health and welfare. In that endangerment finding, EPA stated that it intends to propose GHG emission standards for covered aircraft that will be at least as stringent as emission standards under development by the International Civil Aviation Organization (“ICAO”). The ICAO’s standards were approved on October 6, 2016 and adopted on March 6, 2017. The ICAO standards apply to new aircraft type designs from 2020 forward, and in-production aircraft must meet the standards by 2028. EPA has publicly indicated as recently as January 2018 its intent to adopt the ICAO emission standards for the United States, but the agency has not initiated rulemaking or set a timeline for such actions. Consequently, the City cannot predict when EPA’s emission standards will be proposed, when the FAA will adopt regulations to implement those standards, or what effect the standards may have on the Airport or on air traffic at the Airport. Further, the City cannot predict what additional laws and regulations on other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on the Airport, airlines serving the Airport, other Airport tenants, or the local economy. The effects, however, could be material.

Special Factors Affecting the Airport

PFC Revenues of the Airport are highly dependent upon passengers who are tourists or who are attending meetings and conventions. The volume of such passengers is sensitive to economic developments, and a significant downturn in the national economy could significantly reduce such discretionary air travel as described above. Because of the limitations on the ability of commercial aircraft to take off in high temperatures on the runways at the Airport at their current length, the operations of the Airport may sometimes be restricted during summer months.

Passenger Facility Charges

Termination of PFCs. The City’s authority to impose and use Passenger Facility Charges is subject to certain terms and conditions provided in the PFC Act, the PFC Regulations and the FAA’s authorizations to impose Passenger Facility Charges. If the City fails to comply with these requirements, the FAA may take action to terminate or to reduce the City’s authority to impose or to use Passenger Facility Charges. The FAA may terminate the City’s authority to impose Passenger Facility Charges, subject to informal and formal procedural safeguards, if (a) Passenger Facility Charge revenues are not being used for approved projects in accordance with the FAA’s approval, the PFC Act or the PFC Regulations, or (b) the City otherwise violates the PFC Act or the PFC Regulations. The City is in compliance with all such terms and conditions. The City’s authority to impose a Passenger Facility Charge may also be terminated if the City violates certain provisions of the Airport Noise and Capacity Act of 1990 (the “ANCA”) and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the City’s authority to impose a Passenger Facility Charge would not be summarily terminated. The City is in compliance with the ANCA.

The City reports that it has never had a dispute with the FAA pertaining to the use and collection of the Passenger Facility Charge, the spenddown of funds for approved projects or for a violation of the ANCA.

No assurance can be given that the City's authority to impose a Passenger Facility Charge will not be terminated by Congress or the FAA, that the Passenger Facility Charges program will not be modified or restricted by Congress or the FAA so as to reduce PFC Revenues available to the City or that the City will not seek to decrease the amount of PFC Limit remaining to be collected, provided such decrease does not violate the City's covenant in the Indenture.

Amendments to PFC Act or PFC Regulations. There is no assurance that the PFC Act will not be repealed or amended or that the PFC Regulations or any FAA authorization to impose Passenger Facility Charges will not be amended in a manner that would adversely affect the City's ability to collect and use PFC Revenues.

Collection of the PFCs. The ability of the City to collect sufficient PFC Revenues depends upon a number of factors including the operation of the Airport by the City, the use of the Airport by airlines collecting Passenger Facility Charges, the efficiency and ability of the collecting carriers to collect and remit Passenger Facility Charges to the City and the number of enplanements at the Airport. The City relies upon the collecting carriers' collection and remittance of Passenger Facility Charges, and both the City and the FAA rely upon the Airlines' reports of enplanements and collection statistics. The PFC Act provides that Passenger Facility Charges collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the Passenger Facility Charge, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for Passenger Facility Charge collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. Airlines are permitted to commingle Passenger Facility Charge collections with other revenues. Airlines that have filed for Chapter 7 or 11 bankruptcy protection, however, are required to segregate Passenger Facility Charge revenue in a separate account for the benefit of the Airport and cannot grant a third party any security or other interest in Passenger Facility Charges revenue. The Airlines are entitled to retain interest earned on Passenger Facility Charge collections until such Passenger Facility Charge collections are remitted. This procedure was followed by Delta, United and Northwest during their respective bankruptcies. Passenger Facility Charges collected by those airlines were required by the bankruptcy court to be placed in accounts separate from other airline revenue accounts and be paid to airports monthly in accordance with the PFC regulations. However, the City cannot predict whether an airline that files for bankruptcy protection will properly account for the Passenger Facility Charges or whether the bankruptcy estate will have sufficient moneys to pay the City in full for the Passenger Facility Charges owed by such airline. The City has recovered all of its Passenger Facility Charges from each of the airlines that filed for Chapter 11 bankruptcy protection to date.

Refinancing Risk

If the authorization to collect PFC Revenues is terminated with respect to the Bonds and any Parity Debt as described under "Passenger Facility Charges - Termination of PFCs" above, the City's ability to pay any remaining principal of the Bonds and any Parity Debt would be primarily dependent on the City's ability and willingness to either pay debt service from general revenues of the Airport or to issue and sell refunding obligations secured by general revenues of the Airport. The City has covenanted to use its best efforts, but is not legally obligated, to either to use general revenues of the Airport to pay debt service on the Bonds or to issue other bonds to refund the Bonds.

While the City believes that it could raise rates and charges, including landing fees, of the Airport in sufficient amounts to produce adequate net revenues of the Airport to enable the City to issue refunding bonds in an amount sufficient to pay all the principal of the Bonds, a variety of factors could adversely affect its ability to do so, and any such refunding would likely require a substantial increase in rates and charges. Net revenues of the Airport could be reduced for any of the reasons described above under the heading "Factors Affecting the Airline Industry."

As an alternative to refunding the Bonds, the City could choose to annually pay debt service on the Bonds from general airport revenue, if available.

Federal Funding Considerations

The Airport depends upon federal funding not only in connection with grants and Passenger Facility Charge authorizations but also because it is federal funding that provides for TSA, Custom and Border Protection (“CBP”), air traffic control and other FAA staffing and facilities. Another factor that has affected the industry in the last several years is the federal budget reductions, enacted through implementation of the sequestration provisions of the Budget Control Act of 2011. The sequestration provisions were first triggered in 2013, cutting the budgets of federal agencies, including the FAA, CBP and TSA. While reductions have continued in some form in every year since, Congress has acted several times to prevent “sequester” cuts to discretionary programs. The sequester will return in 2020 under current law. Should sequestration be triggered again, it could adversely affect FAA, CBP and TSA budgets and operations, as well as the availability of certain federal grant funds such as AIP funding. Such budget cuts could also lead to the FAA, CBP and TSA being forced to implement furloughs of their employees and freeze hiring, which could result in flight delays and cancellations.

The United States Congress periodically approves authorizing and funding legislation for the FAA. Such legislation includes federal capital grants to support airport infrastructure through entitlement grants (which are determined by formulas based on passenger, cargo and general aviation activity levels) and discretionary grants (which are allocated on the basis of specific set-asides and the national priority ranking system). If there is a reduction in the amount of grants that are awarded to the City for the Airport, it could: (i) increase by a corresponding amount the capital expenditures that the City would need to fund from other sources (such as operating revenues); (ii) extend the timing to complete certain projects; or (iii) reduce the scope of individual proposed projects or the overall program, or both. Over the years, FAA funding legislation and various components of FAA operations have not been consistently approved on a long-term basis. The FAA has previously endured brief shutdowns when a lapse in continuing authority terminated funding for non-essential operations.

Based on past experience, the City does not expect such shutdowns to have a material adverse effect on Airport operations. However, the failure by Congress to reauthorize the operating authority of the FAA, or additional conditions placed on such authority, could have an adverse impact on Airport operations, including the availability of grant and other federal funds to finance capital improvements, in the future.

Capacity of National Air Traffic Control and Airport Systems

Demands on the national air traffic control system continue to cause aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. These restrictions affect airline schedules and passenger traffic nationwide. The FAA is gradually automating and enhancing the computer, radar, and communications equipment of the air traffic control system and assisting in the development of additional airfield capacity through the construction of new runways and the more effective use of existing runways. However, increasing demands on the national air traffic control and airport systems could cause increased delays and restrictions in the future.

Forward-Looking Statements

This Official Statement contains statements relating to future results that are “forward-looking statements.” When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect,” and similar expressions identify forward-looking statements. 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 financial projections set forth in this Official Statement were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to the prospective financial information. The City’s independent auditors have not compiled,

examined, or performed any procedures with respect to the prospective financial information contained in this Official Statement, nor have they expressed any opinion or any other form of assurance on such information or its achievability. The City's independent auditors have not been consulted in connection with the preparation of any financial projections contained in this Official Statement and the City's independent auditors assume no responsibility for its content.

Uncertainties of Projections, Forecasts and Assumptions

The Report contains certain assumptions, forecasts and projections. See "APPENDIX B - REPORT OF AIRPORT CONSULTANT." Projected compliance with certain of the covenants contained in the Indenture is also based upon assumptions and projections. Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in the Report are not necessarily indicative of future performance, and none of the City, the Municipal Advisor the Underwriter or the Airport Consultant assumes any responsibility for the accuracy of such projections.

The projections are based, in part, on historic data from sources considered by the Airport Consultant to be reliable, but the accuracy of this data has not been independently verified. The projections are based on assumptions made by the Airport Consultant concerning future events and circumstances which the Airport Consultant believes are significant to the projections but which cannot be assured. Therefore, the actual results achieved may vary from the projections, and such variations could be material.

Parity Debt

Subject to certain restrictions, the City is permitted to incur Parity Debt that constitute additional charges against the PFC Revenues without the consent of Owners of the Bonds. See the caption "THE BONDS - Parity Debt." To the extent that other Parity Debt is issued by the City, the funds available to pay the Bonds may be decreased. In addition, there is no limitation on the ability of the City to issue Parity Debt at any time to refund any outstanding Parity Debt.

Limitations on Remedies; Bankruptcy

The rights of the Owners of the Bonds are subject to the limitations on legal remedies against municipalities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the Owners of the Bonds, and enforcement of the City's obligations under the Indenture, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or later in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against cities in the State.

Bankruptcy proceedings under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) which governs the bankruptcy proceedings for public agencies such as the City, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Bond Counsel has limited its opinion as to the validity and enforceability of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion.

The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation, or modification of the rights of the Owners.

Early Redemption Risk

Early redemption of the Bonds may occur in whole or in part, if the City is required to redeem the Bonds or exercises its right to redeem the Bonds in whole or in part pursuant to the provisions of the Indenture. See "THE BONDS - Redemption." The resulting redemption of Bonds that were purchased at a price greater than the applicable redemption price could reduce the otherwise expected yield on such Bonds.

Loss of Tax Exemption on the Bonds

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were executed and delivered as a result of future acts or omissions of the City in violation of its covenants contained in the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity.

In addition, Congress has recently adopted and may consider in the future, legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service ("Service") has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures, the Service is likely to treat the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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 or the Airport.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, except during any period while a Bond is held by a “substantial user” of the facilities financed by the Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Tax Code”). It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals.

The opinions set forth in the preceding paragraph are subject to the condition that the City complies with all requirements of the Tax Code relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond’s maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

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

Other Tax Considerations

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Bonds, or as to the consequences of owning or receiving interest on the Bonds, as of any future date. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as “APPENDIX E.”

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. In the case of any bankruptcy proceeding involving the City, the rights of the Owners could be modified at the direction of the court. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture and other pertinent documents is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel, will render an opinion with respect to the validity and enforceability of the Indenture, and as to the validity of the Bonds. See “APPENDIX E” hereto for the proposed form of Bond Counsel’s opinion.

The City has no knowledge of any fact or other information which would indicate that the Indenture or the Bonds are not enforceable against the City, except to the extent such enforcement is limited by principles of equity, by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors’ rights generally and by limitations on legal remedies against municipalities in the State.

Certain legal matters will be passed on for the City by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel and by Best Best & Krieger LLP, San Diego, California as City Attorney.

Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Absence of Litigation

The City will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Indenture is to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof.

There exists lawsuits and claims against the City that are incidental to the ordinary course of the City's operations. In the view of the City, there is no litigation, present or pending against the City, that will individually or in the aggregate impair the City's ability to pay the Bonds when due.

CONCLUDING INFORMATION

Rating on the Bonds

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned a rating of "A" to the Bonds. Such rating reflects only the views of S&P, and any desired explanation of the significance of such rating may be obtained from S&P Global Ratings. 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 the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Except as otherwise required in the Continuing Disclosure Certificate, the City undertakes no responsibility either to bring to the attention of the owners of any Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The Bonds are being sold at an aggregate purchase price of \$_____ (representing the aggregate principal amount of the Bonds plus a net original issue premium of \$_____ and less an underwriting discount of \$_____) pursuant to a bond purchase contract ("Bond Purchase Contract") entered into between the City and Stifel, Nicolaus & Company, Incorporated (the "Underwriter").

The Underwriter will initially offer the Bonds for sale at the prices and yields set forth on the inside front cover page of this Official Statement. Such prices or yields may subsequently change. The Underwriter reserves the right to join with dealers and other investment banking firms in offering the Bonds for sale and may offer to sell Bonds to dealers at prices lower than the initial offering prices.

The Municipal Advisor

The material contained in this Official Statement was prepared by the City with the assistance of the Municipal Advisor who advised the City as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein received from sources other than the City has been obtained by the City from sources which are believed to be reliable, but such information is not guaranteed by Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Disclosure Counsel acts as compliance counsel to the Municipal Advisor in connection with their general regulatory obligations as a municipal advisor; however, such representation does not include representation with respect to the Bonds or any evaluation or opinion as to whether the Municipal Advisor is satisfying or has satisfied any fiduciary duty, fair dealing obligation or suitability analysis with respect to individual transactions or clients.

Continuing Disclosure

The City will provide annually certain financial information and data relating to the Airport by not later than February 1 in each year commencing February 1, 2020 (the “Annual Report”), and to provide notices of the occurrence of certain other enumerated events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the “Rule”). The Municipal Advisor will act as the Dissemination Agent. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events and certain other terms of the continuing disclosure obligation are found in the form of the City’s Disclosure Certificate attached in “APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Additional Information

The summaries and references contained herein with respect to the Indenture, the Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Bonds are qualified in their entirety by reference to the form hereof included in the Indenture. Copies of the Indenture may be obtained after delivery of the Bonds from the City at 3200 E. Tahquitz Canyon Way, Palm Springs, California 92262.

References

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

Execution

The execution of this Official Statement for the City by the City Manager has been duly authorized by the City.

CITY OF PALM SPRINGS

By: _____
City Manager

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APPENDIX A

SUMMARY OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust between the City of Palm Springs, a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California (the “City”) and U.S. Bank National Association (the “Trustee”), dated as of July 1, 2019 (the “Indenture”). This summary is not intended to be definitive. Reference is made to the actual Indenture (copies of which are available from the City) for the complete terms thereof.

Defined Terms.

“Approved Airport Projects” means any additions, betterments, extensions, other improvements of or related to the Airport or any other costs incurred for any purpose at or related to the Airport from time to time (whether or not located at the Airport), including but not limited to the acquisition of land, all of which shall have been authorized by the FAA pursuant to the FAA Approval Letter, each of which shall constitute an “Approved Project” as such term is defined in PFC Regulations Section 158.3.

“Approved Project Account” means the account by that name to be established within the Capital Fund and held by the Trustee pursuant to the Indenture.

“Bond Administrative Expenses” means all costs incurred by the City in the administration of the Bonds and any Parity Debt, including but not limited to costs and expenses of the Trustee, costs and expenses of complying with the City's obligations under the Continuing Disclosure Certificate, and the costs of legal and financial consulting services provided with respect to the ongoing administration of the Bonds and any Parity Debt.

“Bond Administrative Expense Fund” means the fund by that name established and held by the City under the Indenture.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the City, of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Year” means any twelve-month period beginning on June 2 in any year and extending to the next succeeding June 1, both dates inclusive; except that the first Bond Year begins on the Closing Date and ends on June 1, 2020.

“Bonds” means the City of Palm Springs 2019 Airport Passenger Facility Charge Revenue Bonds (Palm Springs International Airport) issued by the City in the aggregate principal amount of \$_____ under the municipal affairs powers of the City as a charter city of the State of California, and under the Indenture.

“Business Day” means a day of the year (other than a Saturday or Sunday) on which banks in California are not required or permitted to be closed, and on which the New York Stock Exchange is open.

“Capital Fund” means the fund by that name to be established and held by the Trustee pursuant to the Indenture.

“Certificate of the City” means a certificate in writing signed by the Mayor, City Manager or Finance Director of the City, or any other person designated as an authorized officer of the City by a written certificate executed by the City Manager and filed with the Trustee.

“Closing Date” means July __, 2019, being the date on which the Bonds are delivered by the City to the Original Purchaser.

“Costs of Approved Airport Projects” means all costs paid or legally obligated to be paid by the City in connection with the acquisition and construction of Approved Airport Projects, and the placing of the same in operation, including but not limited to expenses incident and properly allocable to the acquisition and construction of Approved Airport Projects, if and to the extent permitted by the PFC Act and the PFC Regulations.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Costs of the Terminal Building Approved Project” means all costs paid or legally obligated to be paid by the City in connection with the acquisition and construction of the Terminal Building Approved Project, and the placing of the same in operation, including but not limited to expenses incident and properly allocable to the acquisition and construction of the Terminal Building Approved Project, if and to the extent permitted by the PFC Act and the PFC Regulations.

“Debt Service” means, with respect to the Bonds and any Parity Debt during any period, the aggregate amount of the principal of and interest on the Bonds and such Parity Debt coming due and payable during the period of calculation.

“Debt Service Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository under the Indenture.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means any of the events described in the Indenture.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged; (b) obligations of any agency, department or instrumentality of the United States of America, the

timely payment of principal and interest on which are directly or indirectly secured or guaranteed by the full faith and credit of the United States of America.

“FAA” means the Federal Aviation Administration, or the successor to its powers and authority.

“FAA Approval Letter” means the Final Agency Decision from the FAA dated November 30, 2017, approving application number 17-02-C-00-PSP to impose and use a Passenger Facility Charge at the Airport, as amended by the letter from the FAA dated April 6, 2018.

“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.

“Future Approved Airport Projects” means any additional capital projects of the Airport approved for funding with PFC Revenues by the FAA and not included in the FAA Approval Letter.

“Future Capital Account” means the account by that name to be established within the Capital Fund and held by the Trustee pursuant to the Indenture.

“Independent Accountant” means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State of California, appointed by or acceptable to the City, and who, or each of whom: (a) is in fact independent and not under domination of the City; (b) does not have any substantial interest, direct or indirect, with the City; and (c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Independent Financial Consultant” means any consultant or firm of such consultants, appointed by or acceptable to the City, and who, or each of whom: (a) is judged by the City to have experience in matters relating to the collection of PFC Revenues; (b) is in fact independent and not under domination of the City; (c) does not have any substantial interest, direct or indirect, with the City and (d) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Interest Account” means the account by that name established and held by the Trustee as an account within the Debt Service Fund under the Indenture.

“Interest Payment Date” means December 1, 2019, and each June 1 and December 1 thereafter so long as any of the Bonds remain unpaid.

“Nominee” means (a) initially, Cede & Co. as nominee of DTC, and (b) any other nominee of the Depository designated under the Indenture.

“Office” means, with respect to the Trustee, the corporate trust office of the Trustee at the address set forth in the Indenture, or at such other or additional offices as may be specified by the Trustee in writing to the City; except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business is conducted.

“Ordinance” means Ordinance No. 1989, adopted by the City Council of the City on May 22, 2019, as the same may be supplemented and amended from time to time.

“Original Purchaser” means Stifel, Nicolaus & Company, Incorporated, as original purchaser of the Bonds upon the negotiated sale thereof.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except: (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds paid or deemed to have been paid under the Indenture; and (c) Bonds in lieu of or in substitution for which other Bonds have been authorized, executed, issued and delivered by the City under the Indenture.

“Owner” means, with respect to any Bond, the person in whose name the ownership of such Bond is registered on the Registration Books.

“Parity Debt” means any bonds, notes, loans, advances or other indebtedness issued or incurred by the City which are secured by a pledge of and lien on the PFC Revenues on a parity with the Bonds under the Indenture.

“Passenger Facility Charges” means passenger facility charges authorized from time to time under the PFC Act.

“Permitted Investments” means any of the following:

- (a) Federal Securities.
- (b) Any direct or indirect obligations of an agency or department of the United States of America whose obligations represent the full faith and credit of the United States of America, or which are rated A or better by S&P.
- (c) Interest-bearing deposit accounts (including certificates of deposit) in federal or State chartered savings and loan associations or in federal or State of California banks (including the Trustee), provided that: (i) the unsecured obligations of such commercial bank or savings and loan association are rated A or better by S&P; or (ii) such deposits are fully insured by the Federal Deposit Insurance Corporation.
- (d) Commercial paper rated “A-1+” or better by S&P.
- (e) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of “A-1+” or better by S&P.
- (f) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAm-G, AAAM or AAm, which funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services.
- (g) Obligations the interest on which is excludable from gross income under Section 103 of the Tax Code, and which are either (a) rated A or better by S&P, or (b) fully secured as to the payment of principal and interest by Permitted Investments described in clauses (a) or (b).

- (h) Obligations issued by any corporation organized and operating within the United States of America having assets in excess of \$500,000,000, which obligations are rated A or better by S&P.
- (i) Bonds or notes issued by any state or municipality which are rated A or better by S&P.
- (j) Any investment agreement with, or guaranteed by, a financial institution the long-term unsecured obligations or the claims paying ability of which are rated A or better by S&P at the time of initial investment, by the terms of which all amounts invested thereunder are required to be withdrawn and paid to the Trustee in the event such rating at any time falls below A.
- (k) The Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

“PFC Act” means the Aviation Safety and Capacity Expansion Act of 1990, Public Law 101-508, Title IX, Subtitle B., Sections 9110 and 9111, recodified as 40 U.S. Section 40117, as amended or replaced from time to time.

“PFC Balance” means, as of each June 30, the PFC Limit less the cumulative amount of PFC Revenues received by the City, together with earnings thereon.

“PFC Limit” means the cumulative amount of all Passenger Facility Charges which the City is permitted by the FAA to collect through the operation of the Airport. As of the Closing Date, the amount of the PFC Limit is \$140,310,796.

“PFC Regulations” means Part 158 of the Federal Aviation Regulations (14 CFR Part 158), as amended from time to time, and any other regulations issued with respect to the PFC Act.

“PFC Revenue Fund” means the account by that name established and held by the Trustee under the Indenture.

“PFC Revenues” means all revenues received by the City from time to time from Passenger Facility Charges which are imposed pursuant to the FAA Approval Letter and pursuant to the PFC Act and the PFC Regulations, including (a) any investment income with respect thereto, and (b) gains and losses from sales of investments after such revenue has been remitted to the City as provided in the PFC Regulations; all of which are pledged to the Bonds and any Parity Debt.

“Principal Account” means the account by that name established and held by the Trustee as an account within the Debt Service Fund under the Indenture.

“Project Fund” means the fund by that name established and held by the Trustee under the Indenture.

“Projected Bond Administrative Expense” means, to the extent payable within the PFC Limit, a cumulative amount not to exceed \$30,000 multiplied by the number of years remaining to the scheduled maturity of the Bonds and any Parity Debt.

“Qualified Project Costs” means costs paid with respect to the Terminal Building Approved Project that meet each of the following requirements: (i) the costs are properly chargeable to capital

account (or would be so chargeable with a proper election by the City or but for a proper election by the City to deduct such costs) in accordance with general federal income tax principles and in accordance with United States Treasury Regulations §1.103-8(a)(1), provided, however, that only such portion of interest accrued during rehabilitation or construction of the Terminal Building Approved Project shall be eligible to be a Qualified Project Cost as bears the same ratio to all such interest as the Qualified Project Costs bear to all Project Costs; and provided further that interest accruing after the date of completion of the Terminal Building Approved Project shall not be a Qualified Project Cost. Qualified Project Costs shall include only (A) the actual out-of-pocket costs incurred by the City or a related party as described in Section 1.150-1(b) of the Treasury Regulations in constructing or rehabilitating the Terminal Building Approved Project (or any portion thereof), (B) any reasonable fees for supervisory services actually rendered by the City or a related party as described in Section 1.150-1(b) of the Treasury Regulations; (ii) the costs are paid with respect to a qualified facility or facilities within the meaning of Section 142(c) of the Tax Code, (iii) the costs are paid after the earlier of 60 days prior to the date of a declaration of “official intent” to reimburse costs paid with respect to the Terminal Building Approved Project (within the meaning of §1.150-2 of the United States Treasury Regulations) or the date of issue of the Bonds, and (iv) if the Costs of the Terminal Building Approved Project were previously paid and are to be reimbursed with proceeds of the Bonds such costs were (A) costs of issuance of the Bonds, (B) preliminary capital expenditures (within the meaning of United States Treasury Regulations §1.150-2(f)(2)) with respect to the Terminal Building Approved Project (such as architectural, engineering and soil testing services) incurred before commencement of acquisition or construction of the Terminal Building Approved Project that do not exceed twenty percent (20%) of the issue price of the Bonds (as defined in United States Treasury Regulations §1.148-1), or (C) were capital expenditures with respect to the Terminal Building Approved Project that are reimbursed no later than eighteen (18) months after the later of the date the expenditure was paid or the date the Terminal Building Approved Project is placed in service (but no later than three years after the expenditure is paid).

“Qualified Reserve Fund Credit Instrument” means an irrevocable surety bond, bond insurance policy or other credit instrument issued by a commercial bank or insurance company and deposited with the Trustee under the Indenture, provided that all of the following requirements are met as of the date such instrument is deposited with the Trustee:

- (a) at the time of issuance the long-term credit rating of such bank or insurance company is in one of the two highest rating categories by S&P, or the claims paying ability of such insurance company is rated in one of the two highest rating category by A.M. Best & Company;
- (b) such surety bond, bond insurance policy or other credit instrument has a term of at least 12 months;
- (c) such surety bond, bond insurance policy or other credit instrument has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released under the Indenture; and
- (d) the Trustee is authorized under the terms of such surety bond, bond insurance policy or other credit instrument to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required under the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the close of business on the 15th calendar day of the month preceding such Interest Payment Date, whether or not such 15th calendar day is a Business Day.

“Registration Books” means the records maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

“Request of the City” means a request in writing signed by the Mayor, City Manager or Finance Director of the City, or any other person designated as an authorized officer of the City by a written certificate executed by the City Manager and filed with the Trustee.

“Reserve Fund” means the account by that name established and held by the Trustee under the Indenture.

“Reserve Requirement” means an amount equal to the least of (a) maximum annual debt service on the Bonds, (b) 125% of average annual debt service on the Bonds and (c) 10% of the initial principal amount of the Bonds.

“Revenue Fund” means the fund established by the City for the deposit and receipt of PFC Revenues.

“S&P” means S&P Global Ratings, of New York, New York, and its successors.

“Securities Depositories” means DTC; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in a Request of the City delivered by the City to the Trustee.

“Supplemental Indenture” means any indenture, agreement or other instrument which amends, supplements or modifies the Indenture and which has been duly entered into between the City and the Trustee; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Code” means the Internal Revenue Code of 1986, as amended. Any reference to a provision of the Tax Code shall include the applicable temporary and permanent regulations promulgated under or with respect to Section 103 and Sections 141 through 150, inclusive, of the Tax Code.

“Term Bonds” means the Bonds maturing on June 1, 20__.

“2019 Capital Account” means the account by that name to be established within the Capital Fund and held by the Trustee pursuant to the Indenture.

Registration Books.

The Trustee will keep or cause to be kept, at its Office, sufficient records for the registration and registration of transfer of the Bonds, which shall at all times during normal business hours, and upon reasonable notice, be open to inspection by the City. The Trustee will register the ownership and transfer of the Bonds on the Registration Books under such reasonable regulations as it may prescribe.

Establishment and Application of Costs of Issuance Fund.

The Trustee will establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund” into which the Trustee shall deposit a portion of the proceeds of sale of the Bonds under the Indenture. The Trustee shall disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance of the Bonds upon submission of a Request of the City stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. The Trustee may conclusively rely on such Requests of the City and shall be fully protected in relying thereon. On October 1, 2019, or upon the earlier Request of the City, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Project Fund, and shall thereupon close the Costs of Issuance Fund.

Project Fund.

The Trustee will establish, maintain and hold in trust a separate fund designated as the “Project Fund” into which the Trustee shall deposit a portion of the proceeds of the sale of the Bonds under the Indenture. The Trustee shall disburse amounts in the Project Fund from time to time to pay Costs of the Terminal Building Approved Project upon submission of Requests of the City in substantially the form included in the Indenture. Upon the determination by the City that the Terminal Building Approved Project has been completed and that no further amounts are required to be disbursed from the Project Fund to pay Costs of the Terminal Building Approved Project, the City shall file a Certificate of the City with the Trustee to that effect. Upon receipt of such Certificate of the City, the Trustee shall withdraw all amounts remaining on deposit in the Project Fund and deposit such amounts in the Interest Account, to be applied towards the payment of interest next coming due and payable on the Bonds and the Trustee shall close the Project Fund.

The City covenants under the Indenture that amounts on deposit in the Project Fund shall be expended only on the Terminal Building Approved Project.

Security of Bonds; Equal Security.

For the security of the Bonds, the City grants under the Indenture a first pledge of and lien on, and a security interest in, all of the PFC Revenues and all of the moneys on deposit in the Revenue Fund, the PFC Revenue Fund, the Debt Service Fund, the Redemption Fund and the Future Capital Account, on a parity with the pledge, lien and security interest which secures any Parity Debt. Such pledge, lien and security interest are for the equal security of the Bonds and any Parity Debt without preference or priority for number, date of execution or date of delivery. Except for such funds and moneys, no funds of the City are pledged to, or otherwise liable for, the payment of Debt Service on the Bonds or Parity Debt.

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 any Parity Debt, 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 and any Parity Debt without preference, priority or distinction as to security or otherwise of any of the Bonds or Parity Debt 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 in the Indenture.

Debt Service Fund and Accounts Therein.

The Indenture establishes a separate fund to be known as the “Debt Service Fund” which shall be held by the Trustee in trust for the benefit of the Bond Owners and the owners of any Parity Debt. Within the Debt Service Fund, the Trustee shall establish the Interest Account and the Principal Account. The Trustee shall hold the Debt Service Fund and the accounts therein for the uses and purposes set forth in the Indenture, so long as the Bonds or any Parity Debt remain Outstanding.

The Trustee will deposit in the Interest Account all amounts transferred from the PFC Revenue Fund under the Indenture with respect to interest on the Bonds and any Parity Debt, and apply amounts on deposit in the Interest Account for the sole purpose of paying interest on the Bonds and any Parity Debt as it comes due and payable. The Trustee will deposit in the Principal Account all amounts transferred from the PFC Revenue Fund under the Indenture with respect to principal of the Bonds and any Parity Debt, and shall apply amounts on deposit in the Principal Account for the sole purpose of paying principal of the Bonds and any Parity Debt as it comes due and payable, including the principal amount of the Term Bonds upon the mandatory sinking fund redemption thereof under the Indenture, and the principal amount of any term Parity Debt which is subject to mandatory sinking fund redemption. In the event of a deficiency in the Debt Service Fund to pay the full amount of principal and interest then coming due on the Bonds and any Parity Debt, amounts on deposit in the Debt Service Fund shall be applied *first*, to pay interest coming due and payable thereon and *second*, to pay principal coming due and payable thereon.

Reserve Fund.

The Indenture establishes a separate fund to be known as the “Reserve Fund” which shall be held by the Trustee in trust for the benefit of the Bond Owners. An amount equal to the Reserve Requirement shall be maintained in the Reserve Fund at all times. In the event of a deficiency in the Reserve Fund, the Trustee shall promptly notify the City in writing of such deficiency, and such deficiency shall be replenished from amounts transferred by the Trustee from the PFC Revenue Fund under the Indenture.

The Trustee shall apply amounts in the Reserve Fund solely (i) for the purpose of making transfers to the Debt Service Fund on the Business Day immediately preceding each date on which the principal of or interest on the Bonds is due and payable, if there is then a deficiency in the Debt Service Fund, or (ii) at any time for the retirement of all the Outstanding Bonds. So long as no Event of Default has occurred and is continuing, the Trustee shall withdraw any amount in the Reserve Fund in excess of the Reserve Requirement no later than the sixth Business Day preceding each Interest Payment Date and deposit such amount in the Interest Account.

The City may at any time tender to the Trustee a Qualified Reserve Fund Credit Instrument in replacement for all or a portion of the funds then on deposit in the Reserve Fund. The Trustee shall comply with all documentation relating to a Qualified Reserve Fund Credit Instrument as required to maintain such Qualified Reserve Fund Credit Instrument in full force and effect and as required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture. Upon the expiration of any Qualified Reserve Fund Credit Instrument, the City will either (i) replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the amount of the Reserve Requirement, to be derived from the first available PFC Revenues.

Redemption Fund.

The Trustee shall establish a separate fund to be known as the “Redemption Fund” which shall be held by the Trustee in trust for the benefit of the Bond Owners. The Trustee shall deposit in the

Redemption Fund all amounts which may be transferred pursuant to the Indenture. Amounts on deposit in the Redemption Fund shall be applied to pay the redemption price of the Bonds which are redeemed under the Indenture, or to pay the redemption price of any issue of Parity Debt in accordance with the provisions thereof.

Bond Administrative Expense Fund.

The City will establish a separate fund to be known as the “Bond Administrative Expense Fund.” On June 1 in each Fiscal Year, the Trustee shall, pursuant to a Certificate of the City, withdraw from the PFC Revenue Fund and transfer to the City for deposit into the Bond Administrative Expense Fund an amount necessary, together with funds available therein, to pay estimated Bond Administrative Expenses coming due in the current and succeeding Fiscal Year; provided that the City shall not file the foregoing Certificate of the City until such time as it has received approval from the FAA to pay such Bond Administrative Expenses from PFC Revenues that are within the existing PFC Limit or within an increase in the PFC Limit.

Investment of Moneys in Funds.

The Trustee shall invest moneys in the funds and accounts established and held by it under the Indenture in Permitted Investments specified in a Request of the City (which Request will be deemed to include a certification that the specified investment is a Permitted Investment) delivered to the Trustee at least two Business Days in advance of the making of such investments. If and to the extent set forth in a Request of the City filed with the Trustee, the City may designate an investment advisor or investment advisory firm that is authorized to act on its behalf for purposes of directing the investment of amounts in any of the funds and accounts established under the Indenture and held by the Trustee. In the absence of any direction from the City concerning the investment of amounts held by the Trustee under the Indenture, the Trustee shall invest any such amounts solely in Permitted Investments described in subsection (f) of the definition thereof.

The City shall invest amounts held by it under the Indenture in any obligations or securities in which the City is legally authorized to invest funds within its control under the laws of the State of California.

Obligations purchased as an investment of moneys in any fund or account will be deemed to be part of such fund or account. Whenever in the Indenture the City is required to transfer any moneys to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture will be retained in the respective fund or account from which such investment was made; except that the Trustee shall deposit all interest or gain from the investment of amounts in the Reserve Fund in the Interest Account to the extent not required to cause the balance in the Reserve Fund to equal the Reserve Requirement. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture upon receipt by the Trustee of a Request of the City. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made under the Indenture.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City periodic transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

Valuation and Disposition of Investments.

Except as otherwise provided in the following paragraph, the City covenants that all investments of amounts deposited in any fund or account created by or under the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Tax Code) shall be acquired, disposed of and valued (as of the date that valuation is required by the Indenture or the Tax Code) at Fair Market Value as such term is defined below. The Trustee has no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the City in any Certificate or Request of the City.

Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at cost thereof (consisting of present value thereof within the meaning of Section 148 of the Tax Code); provided that the City shall inform the Trustee which funds are subject to a yield restriction, and shall provide the Trustee with any necessary valuation criteria or formulae.

Except as provided in the proceeding paragraph, for the purpose of determining the amount in any fund, the Trustee shall value Permitted Investments credited to such fund at least annually at the Fair Market Value thereof. The Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system. If and as directed by the City in writing, the Trustee shall sell or present for redemption any Permitted Investment so purchased by the Trustee whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited, and the Trustee has no liability or responsibility for any loss resulting therefrom.

The term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

Punctual Payment.

The City will punctually pay or cause to be paid the principal, premium (if any) and interest to become due in respect of all the Bonds in strict conformity with the terms of the Bonds and the Indenture. The City will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures. Nothing in the Indenture prevents the City from making advances of other legally available funds to make any payment referred to in the Indenture.

Budget and Appropriation.

So long as any Bonds remain Outstanding under the Indenture, the City shall adopt all necessary budgets and make all necessary appropriations for the payment of principal of and interest and premium (if any) on the Bonds from the PFC Revenues. If any payment of principal of and interest and premium (if any) on the Bonds requires the adoption by the City of a supplemental budget or appropriation, the City shall promptly adopt the same. The covenants on the part of the City contained in the Indenture constitute duties imposed by law and it is the duty of each and every public official of the City to take such actions and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Indenture.

Compliance with Parity Debt Documents.

The City will faithfully observe and perform all of the conditions, covenants and requirements of the documents authorizing the issuance of any Parity Debt. The City shall not take any action, or omit to take any action within its control, which constitutes or which with the passage of time if not cured would constitute an event of default under and within the meaning of the documents authorizing the issuance of any Parity Debt.

Payment of Claims.

The City will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the City or upon the PFC Revenues or any part thereof, or upon any funds held by the Trustee under the Indenture, or which might impair the security of the Bonds. Nothing in the Indenture requires the City to make any such payment so long as the City in good faith contests the validity of said claims.

Operation and Maintenance of Airport.

The City shall not take any action or omit to take any action that would cause the FAA, the Department of Transportation or any other state or federal agency to suspend or to revoke the City's operating certificates for the Airport. The City shall at all times (a) use reasonable efforts to keep the Airport open for take-offs and landings, (b) use reasonable efforts to obtain in a timely manner all permits and approvals required to construct and operate the Approved Airport Projects, (c) keep or cause to be kept all Airport facilities in good repair, working order and condition and (d) keep or cause to be kept all Airport facilities insured, if such insurance is available at reasonable rates and upon reasonable conditions, against such risks as the City shall deem prudent.

Books and Accounts.

The City shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City, in which complete and correct entries are made of all transactions relating to the PFC Revenues. Such books of record and accounts shall at all times during business hours be subject, upon prior written request, to the reasonable inspection of the Trustee (who has no duty to inspect) and the Owners of not less than 10% in aggregate principal amount of the Bonds then Outstanding, or their representatives authorized in writing.

Protection of Security and Rights of Owners.

The City shall preserve and protect the security of the Bonds and the rights of the Owners. From and after the date of issuance of the Bonds, the City shall not contest the validity or enforceability of the Bonds or the Indenture.

Tax Covenants Relating to Bonds.

Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

Rebate Requirement. The City shall take any and all actions necessary to assure compliance with Section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

No Arbitrage. The City shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code.

Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Tax Code as in effect on the date of issuance of the Bonds.

Exempt Facilities for Airports. The City covenants that the Approved Airport Projects will be used as an airport facility within the meaning of Sections 142(a)(1) and 142(c) of the Tax Code.

Governmental Ownership Requirement. The City covenants that the Approved Airport Projects will be owned by a governmental unit within the meaning of Section 142(b)(1) of the Tax Code. For this purpose, leased property is treated as owned by a governmental unit only if (A) the lessee irrevocably elects (which election is binding on the lessee and all successors under the lease) not to claim depreciation or investment credits for such property; (B) the lease term does not exceed 80 percent of the reasonably expected economic life of the property financed; and (C) any option to purchase is at a price equal to the fair market value at the time of exercise of the option.

Prohibited Private Business Uses. The City covenants that no proceeds of the Bonds will be used to finance the following facilities if such facilities are used for a private business use:

- (a) lodging facilities;
- (b) retail facilities (including food and beverage facilities) in excess of a size necessary to serve passengers and employees at the airport facility;
- (c) retail facilities (other than parking) located outside of the airport terminal;
- (d) office buildings for use by individuals other than employees of a governmental unit or of the operating authority; and
- (e) industrial parks or manufacturing facilities.

Public Use Requirement. The City covenant to make the Approved Airport Projects available on a regular basis for general public use. For this purpose use by common carriers or charter carriers which service members of the general public will qualify as use by the general public.

Costs of Issuance Limitation. The City covenants that, from the proceeds of the Bonds and investment earnings thereon, an amount not in excess of 2% of the proceeds of the Bonds will be used for costs of issuance of the Bonds, all within the meaning of Section 147(g)(1) of the Tax Code. For this purpose, if the fees of the Original Purchaser of the Bonds are retained as a discount on the purchase of the Bonds, such retention shall be deemed to be an expenditure of Proceeds of the Bonds for said fees.

Limitation of Expenditure of Proceeds. The City covenants that not less than 95 percent of the face amount of the Bonds, plus accrued interest and premium (if any) paid on the purchase of the Bonds by the Original Purchaser from the City, plus investment earnings on said amounts are paid for Qualified Project Costs.

Limitation on Land. The City covenants that less than 25% of the proceeds of the Bonds shall be used, directly or indirectly, for the acquisition of land.

Existing Facilities Limit. The City covenants that no proceeds of the Bonds shall be used for the acquisition of any tangible property or an interest therein, other than land or an interest in land, unless the first use of such property is pursuant to such acquisition; provided, however, that this limitation shall not apply with respect to any building (and the equipment therefor) if rehabilitation expenditures (as defined in Section 146(d) of the Tax Code) with respect to such building equal or exceed 15 percent of the portion of the cost of acquiring such building (and equipment) financed with Bond proceeds; and provided, further, that this limitation shall not apply with respect to any structure other than a building if rehabilitation expenditures with respect to such structure equal or exceed 100 percent of the portion of the cost of acquiring such structure financed with the Bond proceeds.

Certain Uses Prohibited. The City covenants that no proceeds of the Bonds shall be used directly or indirectly to provide any airplane, skybox or other private luxury box, health club facility, facility used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

The Trustee has no duty to monitor the compliance by the City with any of the covenants contained in the Indenture.

Further Assurances.

The City shall adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Bond Owners the rights and benefits provided in the Indenture.

Duties, Immunities and Liabilities of Trustee.

The Trustee shall, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants or duties will be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a reasonable corporate trustee would exercise or use.

The City may remove the Trustee at any time, and shall remove the Trustee (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or (ii) if at any time (A) the Trustee ceases to be eligible in accordance with the

Indenture, (B) becomes incapable of acting, (C) is adjudged a bankrupt or insolvent, (D) a receiver of the Trustee or its property is appointed, or (E) any public officer takes control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. The City may accomplish such removal by giving 30 days written notice to the Trustee, whereupon the City will appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the City, and by giving notice of such resignation by first class mail, postage prepaid, to the Bond Owners at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the City will promptly appoint a successor Trustee by an instrument in writing.

Any removal or resignation of the Trustee and appointment of a successor Trustee becomes effective upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and accepted appointment within 45 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee, at the expense of the City, or any Owner (on behalf of such Owner and all other Owners) may petition any federal or state court for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof, and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee under the Indenture, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee under the Indenture; but, nevertheless, upon the receipt by the predecessor Trustee of the Request of the City or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth under the Indenture. Upon request of the successor Trustee, the City will execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the City will mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then maintains a rating on the Bonds, and to the Owners at the addresses shown on the Registration Books. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee shall:

- (a) be a company or bank having trust powers,
- (b) have a corporate trust office in the State of California,
- (c) have (or be part of a bank holding company system whose bank holding company has) a combined capital and surplus of at least \$50,000,000, and
- (d) be subject to supervision or examination by federal or state authority.

If such bank or company publishes a report of condition at least annually, under law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or company is deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible, the Trustee shall resign immediately in the manner and with the effect specified above.

The City shall maintain a Trustee qualified under the provisions of the foregoing provisions, so long as any Bonds are Outstanding.

Liability of Trustee.

The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same, nor does it have any liability whatsoever therefor, nor does it make any representations as to the validity or sufficiency of the Indenture or of the Bonds nor does it incur any responsibility in respect thereof, other than as expressly stated in the Indenture. The Trustee is, however, responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee is not liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee is not liable for the acts of any agents of the Trustee selected by it with due care. The Trustee may become the Owner of Bonds with the same rights it would have if they were not Trustee and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding. The Trustee, either as principal or agent, may engage in any financial or other transaction with the City.

The Trustee is not liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee is not liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture, except for actions arising from the negligence or willful misconduct of the Trustee. The permissive right of the Trustee to do things enumerated under the Indenture shall not be construed as a mandatory duty.

The Trustee will not be deemed to have knowledge of any Event of Default under the Indenture unless and until a responsible officer of the Trustee has actual knowledge thereof, or unless and until a responsible officer of the Trustee has received written notice thereof at its Office. Except as otherwise expressly provided in the Indenture, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Indenture or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default under the Indenture or thereunder. The Trustee shall not be responsible for the City's payment of principal and interest on the Bonds, the City's observance or performance of any other covenants, conditions or terms contained in the Indenture, or the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, and notwithstanding anything in the Indenture to the contrary, the Trustee is not responsible for reviewing the contents of any financial statements furnished to the Trustee and may rely conclusively on the Certificate of the City accompanying such financial statements to establish the City's compliance with its financial covenants under the Indenture, including, without limitation, its covenants regarding the deposit and investment of

PFC Revenues (other than its covenants to transfer such moneys to the Trustee when due under the Indenture).

No provision in the Indenture requires the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture. The Trustee is entitled to receive interest on any moneys advanced by it under the Indenture, at the maximum rate permitted by law.

The Trustee may establish additional accounts or subaccounts of the funds established under the Indenture as the Trustee deems necessary or prudent in furtherance of its duties under the Indenture.

The Trustee has no responsibility or liability whatsoever with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds, nor shall the Trustee have any obligation to review any such material, and any such review by the Trustee will not be deemed to create any obligation, duty or liability on the part of the Trustee.

The Trustee may require indemnity satisfactory to the Trustee be furnished to it to hold the Trustee harmless from any expenses whatsoever and to protect it against any liability it may incur under the Indenture.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty.

The Trustee may execute any of the trusts or powers and perform any of its duties through attorneys, agents and receivers and shall not be answerable for the conduct of the same if appointed by it with reasonable care.

The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to any project refinanced with the proceeds of the Bonds, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

Right to Rely on Documents.

The Trustee is protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, including, without limitation, Bond Counsel or other counsel of or to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Trustee under the Indenture in accordance therewith.

The Trustee is not bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and such person's title thereto is established to the satisfaction of the Trustee.

Preservation and Inspection of Documents.

The Trustee shall retain in its possession all documents received by it under the provisions of the Indenture, which are subject during normal business hours, and upon reasonable prior written notice, to the inspection of the City and any Owner, and their agents and representatives duly authorized in writing.

Compensation and Indemnification.

Absent any agreement to the contrary, the City shall pay to the Trustee from time to time compensation for all services rendered under the Indenture and also all expenses, charges, legal and consulting fees and other disbursements and those of its attorneys (including any allocated costs of internal counsel), agents and employees, incurred in and about the performance of its powers and duties under the Indenture. The Trustee has a first lien on the PFC Revenues and all funds and accounts held by the Trustee under the Indenture to secure the payment to the Trustee of all fees, costs and expenses, including compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture. Any such expenses incurred by the Trustee will be deemed to constitute a substantial contribution to the trust estate which secures the Bonds.

The City further covenants to indemnify the Trustee and its officers, directors, agents and employees, from and against any loss, expense and liabilities, whether or not litigated, which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs and expenses of defending against any claim of liability and of enforcing any remedies under the Indenture and under any related documents, but excluding any and all losses, expenses and liabilities which are due to the negligence or willful misconduct of the Trustee, its officers, directors, agents or employees.

Accounting Records and Financial Statements.

The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of the Bonds and all funds and accounts established and held by the Trustee under the Indenture. Such books of record and account shall be available for inspection by the City at reasonable hours, with reasonable prior notice and under reasonable circumstances. The Trustee shall furnish to the City, at least semiannually, an accounting (which may be in the form of its customary statements) of all transactions relating to the proceeds of the Bonds and all funds and accounts held by the Trustee under the Indenture.

Amendments Permitted.

Amendment With Bond Owner Consent. The Indenture and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended by the City and the Trustee upon Request of the City at any time by the execution of a Supplemental Indenture, with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture. Any such Supplemental Indenture becomes effective upon the execution and delivery thereof by the parties thereto and upon consent of the requisite Bond Owners. No such modification or amendment may:

- (a) extend the maturity of a Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal thereof, or interest thereon, at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond;
- (b) permit the creation by the City of any mortgage, pledge or lien upon the PFC Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification; or
- (c) modify any of the rights or obligations of the Trustee without its written consent.

Amendment Without Bond Owner Consent. The Indenture and the rights and obligations of the City and of the Owners of the Bonds may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

- (a) to add to the covenants and agreements of the City contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power in the Indenture reserved to or conferred upon the City;
- (b) to provide additional security for the Bonds;
- (c) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in the Indenture, or in any other respect whatsoever as the City deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the City and the Trustee;
- (d) to provide for the issuance of Parity Debt under the Indenture, and to provide the terms and conditions under which such Parity Debt may be issued, including but not limited to the establishment of funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the provisions of the Indenture;
- (e) to provide for the issuance of a Qualified Reserve Fund Credit Instrument under the Indenture, including but not limited to provisions securing such Qualified Reserve Fund Credit Instrument and providing for the repayment of any draws made thereunder; or
- (f) to amend any provision of the Indenture to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the City and the Trustee.

Effect of Supplemental Indenture.

From and after the time any Supplemental Indenture becomes effective, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment,

and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Amendment by Mutual Consent.

The provisions of the Indenture do not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner.

Events of Default.

Each of the following events constitutes an Event of Default under the Indenture:

- (a) Failure to pay any installment of the principal of any Bonds when due, whether at maturity as therein expressed, by acceleration or otherwise.
- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the City to observe and perform any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the City by the Trustee; *provided, however*, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30-day period, such failure will not constitute an Event of Default if the City institutes corrective action within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.
- (d) The City commences a voluntary case under Title 11 of the United States Code or any substitute or successor statute.
- (e) The occurrence and continuation of an event of default under and as defined in the documents authorizing the issuance of any Parity Debt.

Remedies on Default.

Whenever any Event of Default has happened and is continuing, the Trustee has the right, at its option and without any further demand upon or notice to the City, to take any one or more of the following actions:

Acceleration of Maturities. The Trustee may declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds has been so declared due and payable, and before any judgment or decree for the payment of the moneys due has been obtained or entered, the City deposits with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest at the respective rates of interest borne by those Bonds, and the reasonable fees and expenses of the Trustee, including fees and expenses of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) has been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate has been made therefor, then, and in every such case, the Owners of at least a

majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment extends to or affects any subsequent default, or impairs or exhausts any right or power consequent thereon.

Actions at Law or in Equity. The Trustee may take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the City under the Indenture.

Appointment of Receiver. As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners under the Indenture, the Trustee may cause the appointment of a receiver or receivers of the PFC Revenues and other amounts pledged under the Indenture, with such powers as the court making such appointment shall confer.

Notice of Event of Default.

Immediately upon becoming aware of the occurrence of an Event of Default, but in no event later than five Business Days following becoming aware of such occurrence, the Trustee shall give notice of such Event of Default to the City by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to certain Events of Default described in the Indenture, the Trustee shall also give such notice to the Bond Owners, which shall include the statement that interest on the Bonds will cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

Application of Funds Upon Event of Default.

All of the PFC Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the occurrence of an Event of Default, and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee as follows and in the following order:

First, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee under the Indenture, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law.

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys are insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Power of Trustee to Control Proceedings.

If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties under the Indenture, whether upon its own

discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Owners' Right to Sue.

No Owner of a Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless:

- (a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding have requested the Trustee in writing to exercise the powers previously granted or to institute such action, suit or proceeding in its own name;
- (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared under the Indenture, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners has any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond as provided, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions or any other provision of the Indenture.

Non-waiver.

Nothing in the Indenture or in the Bonds affects or impairs the obligation of the City, which is absolute and unconditional, to pay from the PFC Revenues and other amounts pledged under the Indenture, the principal of and interest on the Bonds to the Bond Owners when due and payable as provided, or affects or impairs the right of action, which is also absolute and unconditional, of the Bond Owners to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner does not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any

such default or an acquiescence therein, and every power and remedy conferred upon the Owners by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Owners, the City and the Owners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Actions by Trustee as Attorney-in-Fact.

Any suit, action or proceeding which any Owner has the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed under the Indenture (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, subject to certain provisions of the Indenture. Notwithstanding the foregoing, the Trustee has no duty to enforce any such right or remedy unless it has been indemnified to its satisfaction for any additional fees, charges and expenses of the Trustee related thereto, including without limitation, fees and charges of its attorneys and advisors.

Remedies Not Exclusive.

No remedy conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by law.

Benefits Limited to Parties.

Nothing in the Indenture, expressed or implied, gives any person other than the City, the Trustee and the Owners, any right, remedy, claim under or by reason of the Indenture. Any covenants, stipulations, promises or agreements in the Indenture contained by and on behalf of the City are for the sole and exclusive benefit of the Trustee and the Owners.

Defeasance of Bonds.

If the City pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under the Indenture, in the opinion or report of an Independent Accountant is fully sufficient to pay such Bonds, including all principal thereof and interest thereon;
- (c) by irrevocably depositing with the Trustee or an escrow bank, in trust, Federal Securities in such amount as an Independent Accountant determines will,

together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal thereof and interest thereon) at or before maturity; or

- (d) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the City, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the PFC Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the City under the Indenture with respect to such Bonds shall cease and terminate, except only:

- (a) the obligation of the Trustee to transfer and exchange Bonds under the Indenture,
- (b) the obligation of the City to pay or cause to be paid to the Owners of such Bonds, from the amounts so deposited with the Trustee, all sums due thereon, and
- (c) the obligations of the City to compensate and indemnify the Trustee under the Indenture.

The City shall file notice of such election with the Trustee. The Trustee shall pay any funds thereafter held by it, which are not required for said purpose, to the City.

In the case of a defeasance or payment of all of the Bonds Outstanding in accordance with the Indenture, the Trustee shall pay all amounts held by it in any funds or accounts, which are not required for said purpose or for payment of amounts due the Trustee, to the City.

Unclaimed Moneys.

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for two years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for the payment of the principal of and interest on such Bonds.

APPENDIX B
REPORT OF AIRPORT CONSULTANT

Report of the Airport Consultant

Palm Springs International Airport

Prepared for:

The City of Palm Springs, CA

Prepared by:

RICONDO
312 Walnut Street, Suite 3310
Cincinnati, OH 45202
513-651-4700

Ricondo & Associates, Inc. (Ricondo) prepared this document for the stated purposes as expressly set forth herein and for the sole use of the City of Palm Springs, CA and its intended recipients. The techniques and methodologies used in preparing this document are consistent with industry practices at the time of preparation and this Report should be read in its entirety for an understanding of the analysis, assumptions, and opinions presented. Ricondo & Associates, Inc. is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934 and does not provide financial advisory services within the meaning of such act.

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June 19, 2019

Mr. David H. Ready, Esq., PhD
City Manager
City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92262

RE: Report of the Airport Consultant for the City of Palm Springs, CA, Passenger Facility Charge Revenue Bonds, Series 2019

Dear Mr. Ready:

Ricondo & Associates, Inc. (Ricondo) is pleased to present this Report of the Airport Consultant (Report) for inclusion in the Official Statement of the City of Palm Springs (the City) for the Palm Springs International Airport (the Airport) 2019 Airport Passenger Facility Charge (PFC) Revenue Bonds (2019 Bonds).

The 2019 Bonds are being issued pursuant to the City Charter, as amended (the Bond Law), a resolution adopted by the City Council of the City on June 5, 2019, and an Indenture of Trust, dated as of July 1, 2019 (the Indenture) by and between the City and U.S. Bank National Association, Los Angeles, California, as trustee (the Trustee). The 2019 Bonds are special obligations of the City, payable from and secured by a pledge of and lien on Passenger Facility Charges imposed by the City at the Airport (PFC Revenues) under the authority of the Federal Aviation Act and regulations promulgated thereunder, and subject to the limitation on the use of PFC Revenues for such purpose.

Proceeds of the 2019 Bonds, along with other available Federal Aviation Administration (FAA) Airport Improvement Program (AIP) grants, PFC Revenues, and Airport funds, will: (1) fund a portion of the costs of the 2019 Project (defined herein), through the anticipated completion date of the 2019 Project (December 2020); (2) satisfy the reserve requirement for the Bonds and (3) pay certain costs and expenses relating to the issuance of the 2019 Bonds. Unless otherwise defined herein, all capitalized terms in this Report are used as defined in the Official Statement.

This Report presents the analysis undertaken by Ricondo to demonstrate that PFC revenues received by the City are likely to be sufficient to satisfy the payment obligation of the 2019 bonds on a pro forma basis for Fiscal Year (FY)¹ 2019 through FY 2029 (the Projection Period) based on the assumptions regarding the planned issuance of the 2019 Bonds and the timely completion of the 2019 Project. In developing its analysis, Ricondo has reviewed historical trends and formulated projections, based on the assumptions put forth in this Report, which have been reviewed and agreed to by the City regarding the ability of the Air

¹ Fiscal Year ending June 30.

Trade Area (defined herein) to generate demand for air service at the Airport, the trends in air service and passenger activity at the Airport, and the financial performance of the Airport.

This Report is organized as follows:

- Summary of Findings
- Chapter 1: The 2019 Bonds
- Chapter 2: The Palm Springs International Airport
- Chapter 3: The 2019 Project and Funding Sources
- Chapter 4: Demographic and Economic Analysis
- Chapter 5: Passenger Demand and Air Service Analysis
- Chapter 6: Forecast of Passenger Facility Charge Revenue and Debt Service Coverage

Based on the analyses set forth in this Report, Ricondo is of the opinion that the PFC Revenues generated by the Airport in each year of the Projection Period are expected to be sufficient to satisfy the payment obligations of the 2019 Bonds. Although summary information is provided in this letter, a complete understanding of the justification for our opinion cannot be achieved without reading this Report in its entirety.

Founded in 1989, Ricondo is a full-service aviation consulting firm providing airport physical and financial planning services to airport owners and operators, airlines, and federal and state agencies. Ricondo has prepared Reports of the Airport Consultant in support of over \$32 billion of airport-related revenue bonds since 1996. Ricondo is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934. Ricondo is not acting as a municipal advisor and has not been engaged by the City to provide advice with respect to the structure, timing, terms, or other similar matters regarding the issuance of municipal securities. The assumptions about such matters included in this Report were provided by the City or the City's municipal advisor or underwriters, or, with the City's approval, they were derived from general, publicly available data approved by the City. Ricondo owes no fiduciary duty to the City. Ricondo recommends that the City, before taking any action, discuss the information and analyses contained in this Report with internal and external advisors and experts that the City deems appropriate. Any opinions, assumptions, views, or information contained herein are not intended to be, and do not constitute, "advice" within the meaning set forth in Section 15B of the Securities Exchange Act of 1934.

The techniques and methodologies used by Ricondo in preparing this Report are consistent with industry practices for similar studies in connection with the issuance of airport revenue bonds. While Ricondo believes the approach and assumptions used are reasonable, some assumptions regarding future trends and events discussed in this Report, including the implementation schedule, the forecasts of passenger-related activity, and the projections of PFC Revenues, may not materialize. Therefore, actual performance

Mr. David H. Ready, Esq., PhD
City of Palm Springs, CA
June 19, 2019
Page 3

will likely differ from the projections set forth in this Report, and the variations may be material. In developing our analyses, Ricondo used information from various sources, including the City, the underwriters, the municipal advisor, federal and local governmental agencies, and independent providers of economic and aviation industry data, as identified in the notes accompanying the related tables and exhibits in this Report. Ricondo believes these sources to be reliable but has not audited the data and does not warrant their accuracy. The analyses presented are based on conditions known as of the date of this letter. Ricondo has no obligation to update this Report on an ongoing basis.

Sincerely,



RICONDO & ASSOCIATES, INC.

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TABLE OF CONTENTS

Summary of Findings	B-13
The 2019 Bonds	B-13
Palm Springs International Airport.....	B-14
The 2019 Project and Funding Sources.....	B-14
Demographic and Economic Analysis.....	B-15
Passenger Demand and Air Service Analysis	B-16
Forecast of Passenger Facility Charge Revenues and Debt Service Coverage	B-17
1. The 2019 Bonds	B-21
1.1 Plan of Finance.....	B-21
1.1.1 The 2019 Bonds	B-21
1.2 Bond Indenture.....	B-22
2. Palm Springs International Airport	B-27
2.1 Location and Setting	B-27
2.2 Air Trade Area	B-27
2.3 Airport Role and Surrounding Airports.....	B-28
2.4 Existing Airport Facilities.....	B-30
2.4.1 Airfield	B-30
2.4.2 Terminal	B-32
2.4.3 Curbside, Automobile Parking, and Rental Car Facilities	B-33
2.4.4 General Aviation	B-34
2.4.5 Maintenance/Airport Support Areas	B-34
3. 2019 Project and Funding Sources	B-35
3.1 Airport Master Plan	B-35
3.2 The Ticketing Hall Expansion Project.....	B-35
3.3 Project Funding Sources	B-38
3.3.1 The Airport Enterprise Fund.....	B-38
3.3.2 AIP Grants	B-39
3.3.3 Passenger Facility Charge Revenue	B-39

TABLE OF CONTENTS (CONTINUED)

4.	Demographic and Economic Analysis	B-41
4.1	Demographic Analysis	B-41
4.1.1	Population.....	B-41
4.1.2	Age Distribution and Education.....	B-42
4.1.3	Per Capita Personal Income and Household Income.....	B-42
4.2	Economic Analysis.....	B-44
4.2.1	Gross Regional/Domestic Product.....	B-44
4.2.2	Employment Trends.....	B-45
4.2.3	Business Climate.....	B-46
4.2.4	Major Employment Sectors.....	B-48
4.3	Economic Outlook.....	B-56
4.3.1	Short-Term Economic Outlook.....	B-56
4.3.2	Long-Term Economic Assumptions Incorporated in Passenger Demand Forecasts	B-57
4.3.3	Conclusions	B-57
5.	Passenger Demand and Air Service Analysis.....	B-59
5.1	Airlines Serving the Airport.....	B-59
5.2	Air Service Analysis.....	B-61
5.2.1	Historical Airline Market Shares	B-61
5.2.2	Nonstop Markets	B-61
5.2.3	Airline Trends Related to Historical Total Passenger Activity at the Airport.....	B-64
5.2.4	Aircraft Operations	B-68
5.2.5	Landed Weight.....	B-68
5.3	Factors Affecting Aviation Demand at the Airport.....	B-68
5.3.1	National Economy.....	B-70
5.3.2	State of the Airline Industry	B-70
5.3.3	Cost of Aviation Fuel.....	B-71
5.3.4	Threat of Terrorism and Geopolitical Issues.....	B-72
5.3.5	Other Airports in the Region.....	B-72

TABLE OF CONTENTS (CONTINUED)

5.4	Forecasts of Passenger Demand.....	B-74
5.4.1	Forecast Methodology.....	B-74
5.4.2	Key Assumptions.....	B-74
5.4.3	Forecasts of Passenger Demand.....	B-75
5.4.4	Aircraft Operations Forecast.....	B-76
5.4.5	Landed Weight Forecasts.....	B-76
6.	Forecast of Passenger Facility Charge Revenue and Debt Service Coverage.....	B-81
6.1	Financial Framework.....	B-81
6.2	Passenger Facility Charge Revenue.....	B-81
6.2.1	The Airport’s Passenger Facility Charge Program and Historical Passenger Facility Charge Collections and Revenues.....	B-81
6.2.2	Projected Passenger Facility Charge Collections and Revenues.....	B-82
6.2.3	Projected Passenger Facility Charge Revenue.....	B-83
6.3	The Series 2019 Bond Debt Service.....	B-83
6.4	Financial Performance and Debt Service Coverage.....	B-86
6.5	Assumptions Underlying the Financial Projections.....	B-88

LIST OF TABLES

Table S-1	2019 Bonds Funding Plan.....	B-14
Table S-2	Summary of Demographic and Economic Characteristics.....	B-15
Table S-3	Enplaned Passenger Forecast.....	B-18
Table 1-1	2019 Bonds Funding Plan.....	B-21
Table 1-2	2019 Bonds Sources and Uses.....	B-21
Table 1-3	2019 Bonds Assumptions.....	B-22
Table 3-1	Project Funding.....	B-38
Table 4-1	Historical and Projected Population.....	B-41
Table 4-2	Per Capita Personal Income.....	B-43
Table 4-3	Gross Regional Product / Gross Domestic Product.....	B-44
Table 4-4	Civilian Labor Force and Unemployment Rates.....	B-45
Table 4-5	Employment Trends by Major Industry Sector (Employment in Thousands).....	B-47

PALM SPRINGS INTERNATIONAL AIRPORT

LIST OF TABLES (CONTINUED)

Table 4-6	Major Employers in the Air Trade Area.....	B-48
Table 4-7	Total Retail Sales.....	B-52
Table 4-8	Residential Building Permits and Valuation.....	B-55
Table 4-9	Total Bank Deposits.....	B-56
Table 4-10	Projection of Economic Variables Used in Passenger Demand Forecasts.....	B-57
Table 5-1	Carriers Serving the Airport.....	B-59
Table 5-2	Historical Scheduled Passenger Air Carrier Base.....	B-60
Table 5-3	Historical Total Enplaned Passengers by Airline.....	B-62
Table 5-4	Top 20 Domestic Origin and Destination Markets (Fiscal Year 2018).....	B-63
Table 5-5	Nonstop Markets in Peak Month.....	B-64
Table 5-6	Historical Enplaned Passengers.....	B-65
Table 5-7	Historical Aircraft Operations.....	B-68
Table 5-8	Historical Landed Weight by Airline (Pounds in Thousands).....	B-69
Table 5-9	Airports in the Region.....	B-73
Table 5-10	Socioeconomic Variables Included in Analysis.....	B-76
Table 5-11	Enplaned Passenger Forecast.....	B-77
Table 5-12	Domestic Passenger Airline Operations Forecast.....	B-78
Table 5-13	Landed-Weight Forecast.....	B-79
Table 6-1	Historical Passenger Facility Charge Revenues (FY 2009 – FY 2018).....	B-82
Table 6-2	Projection of Passenger Facility Charge Collections (FY 2019 – FY 2029).....	B-83
Table 6-3	Projected Passenger Facility Charge Revenue.....	B-84
Table 6-4	Passenger Facility Charge Pay-Go Projects.....	B-85
Table 6-5	Debt Service Coverage.....	B-87

PALM SPRINGS INTERNATIONAL AIRPORT

LIST OF EXHIBITS

Exhibit 1-1	Flow of Funds	B-25
Exhibit 2-1	Air Trade Area	B-29
Exhibit 2-2	Existing Airport Facilities.....	B-31
Exhibit 3-1	The 2019 Project – Interior Reconfiguration.....	B-36
Exhibit 3-2	The 2019 Project – Interior Renovations	B-37
Exhibit 3-3	The 2019 Project – Canopy Rendering.....	B-38
Exhibit 4-1	Total Economic Impact of Tourism, Greater Palm Springs.....	B-49
Exhibit 5-1	Historical Enplaned Passengers	B-65
Exhibit 5-2	Net Profit of Commercial Airlines Worldwide (CY 2008 – CY 2019).....	B-70
Exhibit 5-3	Historical Monthly Averages of Jet Fuel and Crude Oil Prices	B-71
Exhibit 5-4	Historical Domestic Passengers, Revenues, Fares, and Cost of Jet Fuel	B-72
Exhibit 6-1	Debt Service.....	B-85
Exhibit 6-2	Projected Passenger Facility Charge Revenue	B-86

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SUMMARY OF FINDINGS

The City of Palm Springs (the City) commissioned Ricondo & Associates, Inc. (Ricondo) to prepare this Report of the Airport Consultant (Report) to demonstrate Palm Springs International Airport's (the Airport's or PSP's) compliance with the provisions of the Bond Law and Indenture.¹ The Report also demonstrates the Airport's ability to generate PFC Revenues sufficient to satisfy the payment obligations of the 2019 Bonds on a pro forma basis for Fiscal Year² (FY) 2019 through FY 2029 (referred to in this Report as the Projection Period). In developing this analysis, Ricondo reviewed the terms of the Indenture and the related documents that govern the City's 2019 Bonds; the estimated terms of the 2019 Bonds, as provided by the City's Municipal Advisor; the Airport's existing facilities; the socioeconomic and demographic characteristics of the Airport's Air Trade Area (defined herein); the proposed funding sources for the Ticketing Hall Expansion Project; and the project's purpose, cost, schedule, and expected benefits.

To develop the pro forma analysis of the Airport's ability to generate sufficient PFC Revenue for the above purposes, Ricondo prepared forecasts of airline passengers and related PFC Revenues and annual expenses. Ricondo also reviewed the historical relationships between economic activity and demand for air service, the airlines' provision of air service, and annual collections of PFC Revenue for the Airport. Based on this historical review, Ricondo developed assumptions regarding these factors and relationships through the Projection Period, which provide the basis for the forecasts of passenger activity and PFC Revenue presented in this Report. The following sections summarize Ricondo's assumptions, forecasts, and findings that are detailed in the body of the Report, which should be read in its entirety. Unless otherwise defined herein, all capitalized terms in this Report are used as defined in the Official Statement or the Indenture.

THE 2019 BONDS

The City is issuing the 2019 Bonds to fund, in part, the Ticketing Hall Expansion Project. This project, described in Section 3.2 of this Report, is referred to herein as the 2019 Project or the Project.

Additionally, proceeds from the 2019 Bonds will be used to satisfy the reserve requirement for the Bonds and to pay certain costs and expenses relating to the issuance of the 2019 Bonds.

Table S-1 reflects the 2019 Bonds funding plan.

¹ Ricondo prepared this Report for the stated purpose as expressly set forth herein and for the sole use of the City and its intended recipients. The techniques and methodologies used in preparing the analyses described in this Report are consistent with industry practices at the time of preparation, and this Report should be read in its entirety for an understanding of the analyses, underlying assumptions, and opinions presented. Ricondo is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934 and does not provide financial advisory services within the meaning of such Act. Ricondo consents to the inclusion of this Report in the Official Statement.

² The Fiscal Year is 12 months ending June 30.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE S-1 2019 BONDS FUNDING PLAN

SERIES DESIGNATION	PROJECTS TO BE FUNDED	BOND FUNDS	TAX STATUS
2019 Bonds	Ticket Hall Expansion Project	\$22,612,570	Tax-Exempt

SOURCE: Harrell & Company Advisors LLC, May 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

The Airport consists of approximately 940 acres located within Palm Springs, California, and is owned and operated by the City. The City's Department of Aviation is responsible for the operation and maintenance of all Airport facilities, except navigational aids owned and operated by the Federal Aviation Administration (FAA).

The existing Airport facilities include the airfield, aircraft parking aprons, terminal, terminal curbside, automobile parking facilities, rental car facilities, air cargo, general aviation, and maintenance / Airport support areas. Chapter 2 describes the Airport and its Air Trade Area.

THE 2019 PROJECT AND FUNDING SOURCES

Chapter 3 describes the 2019 Project and its funding sources. The 2019 Project consists of the design and construction of the following elements:

- Within the confines of the existing terminal footprint, create additional public space through interior remodeling and preservation of the terminal's historic front (west) façade;
- Relocate Airline Ticket Office (ATO) space by 19 feet to the east to create approximately 5,000 additional square feet of public circulation space in the ticketing area;
- Install architecturally and functionally standardized new airline check-in counters, increasing the total customer service positions from 48 to 58;
- Enclose the rear (east side) of the ticketing wing's steel enforced canopy area to create additional conditioned interior space to house a new automated baggage handling system (BHS);
- Install an automated BHS to enhance capacity and efficiency throughput, and fortify airline and Transportation Security Administration (TSA) security processes, and centralize the TSA baggage screening area for enhanced processing efficiencies;
- Expand the passenger circulation corridor to almost double the current capacity;
- Preserve the terminal's aviation theme, while integrating new digital signage technologies for improved messaging from airlines to passengers;
- Increase the number of airline self-check-in kiosks;
- Provide appropriate wheelchair storage space;
- Modify the public area ceiling height to reduce ambient noise levels;
- Replace air conditioning, plumbing, and electrical systems with modern, more energy efficient systems; and,
- Introduce airline shared-use check-in systems.

PALM SPRINGS INTERNATIONAL AIRPORT

The 2019 Project is anticipated to be funded in part with proceeds from the 2019 Bonds. The 2019 Project is estimated to cost \$35.3 million, of which \$22,612,570 is assumed to be funded with proceeds from the 2019 Bonds in accordance with the FAA's approval of the City's PFC application for the 2019 Project. The 2019 Project is anticipated to be completed in FY 2021.

Airport PFC funding assumptions reflected in the financial analysis in this Report are described in Chapter 3, and the projections of PFC Revenues are discussed in Chapter 6.

DEMOGRAPHIC AND ECONOMIC ANALYSIS

The demand for air transportation at a particular airport is, to a large degree, dependent upon the demographic and economic characteristics of the airport's air trade area. This relationship is particularly true for origin and destination (O&D) passenger traffic, meaning passengers that either begin or end their trips at the Airport rather than connect through the Airport to other destinations, which has historically been the largest component of demand at the Airport. Therefore, the major portion of demand for air travel at the Airport is influenced more by the local socioeconomic characteristics and tourism activity in the City and the Coachella Valley rather than by individual air carrier decisions regarding service patterns in support of connecting activity. In addition to demographic and economic characteristics, the region's role as a destination market also generates the basis for demand for air service.

The Airport's Air Trade Area consists of the Riverside–San Bernardino–Ontario metropolitan statistical area (MSA), which consists of two counties in California: Riverside (the county in which the Airport is located) and San Bernardino. Chapter 4 presents data indicating the Airport's Air Trade Area has an economic base capable of supporting increased demand for air travel during the Projection Period. A summary of demographic and economic data described in Chapter 4 is presented in **Table S-2**.

TABLE S-2 SUMMARY OF DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS

VARIABLE	CY 2018E	CY 2029P	CAGR 2018–2029
ATA Population	4,680,550	5,622,916	1.7%
U.S. Population	328,910,940	363,960,155	0.9%
ATA Per Capita Personal Income ¹	\$34,556	\$38,771	1.1%
U.S. Per Capita Personal Income ¹	\$46,097	\$52,391	1.2%
ATA GRP	\$145,209	\$186,865	2.3%
U.S. GDP	\$17,602,878	\$21,378,635	1.8%

NOTES:

ATA – Air Trade Area

CAGR – Compound Annual Growth Rate

CY – Calendar Year

GRP – Gross Regional Product

GDP – Gross Domestic Product

¹ Figures in 2009 dollars.

SOURCE: Woods & Poole Economics, Inc., 2018 Complete Economic and Demographic Data Source (CEDDS), April 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

Key findings of Chapter 4 include the following:

- The Air Trade Area population was 4,680,550 in Calendar Year (CY) 2018, and it is projected to increase to 5,622,916 by CY 2029, representing a 1.7 percent compound annual growth rate (CAGR), which is higher than what is projected for California and the United States during the same period (1.0 percent and 0.9 percent, respectively).
- Per capita personal income in the Air Trade Area was lower than in the United States between CY 2008 and CY 2018. The Air Trade Area's per capita personal income in CY 2018 (\$34,556) was 25 percent lower than per capita personal income in the United States (\$46,097). Per capita personal income in the Air Trade Area is projected to increase at a CAGR of 1.1 percent between CY 2018 and CY 2029, which is comparable to the projected CAGR of 1.2 percent for the United States.³
- Between CY 2007 and CY 2017, the Air Trade Area's labor force grew at a CAGR of approximately 1.4 percent; this is higher than the United States during the same period, which grew at a CAGR of 0.5 percent.
- In terms of percentages of industry sector shares, CY 2018 employment in the following industry sectors in the Air Trade Area exceeded employment in the United States: construction, trade, transportation / warehousing / utilities, and government.
- The Airport's Air Trade Area is a popular tourist destination known for its warm weather, upscale amenities, and desert landscape. According to the Greater Palm Springs Convention and Visitors Bureau⁴, 1 in 4 jobs in the Greater Palm Springs region is sustained by tourism. The estimated 13.6 million visitors to the area in 2017 were responsible for an estimated \$5.5 billion in visitor spending, a 10.0 percent increase over 2015 visitor spending.
- A number of hotels are currently under construction or are being planned in Coachella Valley over the next five years to address the increasing demand by visitors to the region. The additional hotels could bring over 1,000 additional rooms to the existing 15,000 rooms in the area.

The data cited in this chapter support the conclusion that the Air Trade Area has a large and diverse economy that can support increased airline travel demand at the Airport through the Projection Period.

PASSENGER DEMAND AND AIR SERVICE ANALYSIS

The FAA classifies the Airport as a small-hub facility based on its percentage of nationwide enplaned passengers, with approximately 2.2 million enplaned and deplaned passengers recorded in FY 2018. As of May 2019, ten scheduled passenger air carriers operated at the Airport, including eight domestic mainline carriers and two foreign carriers. Other key points regarding historical and forecast aviation activities at the Airport are as follows:

- The Airport enjoyed a relatively growing scheduled passenger air carrier base during the period FY 2009 to FY 2019. American Airlines (American), Delta Air Lines (Delta), United Airlines (United), Alaska Airlines (Alaska), Allegiant Air (Allegiant), Sun Country Airlines (Sun Country), and WestJet Airlines (WestJet) operated at the Airport throughout this period.
- Since FY 2009, the Airport has experienced a 4.8 percent CAGR in enplaning passengers, compared to 2.4 percent growth for the nation.

³ Amounts are in 2009 dollars.

⁴ Greater Palm Springs Convention and Visitors Bureau, *2017 Report on the Economic Impact of Tourism*.

PALM SPRINGS INTERNATIONAL AIRPORT

- Frontier Airlines (Frontier) initiated service in FY 2012 with service to Denver International Airport (DEN). The airline discontinued service in FY 2015; however, the airline returned to the market with DEN service in FY 2018 and added service to Chicago O'Hare International Airport (ORD) in FY 2019. Air Canada initiated service in FY 2015 with nonstop service to Vancouver International Airport (YVR). Service to Toronto Pearson International Airport (YYZ) was added in FY 2017, and service to Calgary International Airport (YYC) was added in FY 2019. JetBlue Airways (JetBlue) initiated service in FY 2016 with nonstop service to John F. Kennedy International Airport (JFK). The airline added service to Boston Logan International Airport (BOS) in FY 2019. Flair Airlines (Flair) initiated service in FY 2019 with nonstop service to Edmonton International Airport (YEG), which was suspended in the same year.
- Alaska, United, and American are the largest airlines at the Airport based on enplaned passengers and landed weight.
- As of March 2019, nonstop service was provided to 21 airports, with an average of 58 daily departures. Primary O&D markets with a significant number of daily nonstop flights include: San Francisco (SFO) with 10 average daily departures, Seattle (SEA) with 7 average daily departures, and Phoenix (PHX) with 6 average daily departures.
- The Airport serves a leisure market and experiences seasonal peaks and dips in activity. During the low month of FY 2019 (July 2018), nonstop service was provided to just 11 airports, with an average of approximately 19 daily departures. Flights to these 11 airports ranged from less than 1 average daily departures to 5 average daily departures. United and Alaska each provided service to three destinations; American and WestJet provided service to two destinations each; and Allegiant and Delta provided service to single destinations. Air Canada, Flair, JetBlue, and Sun Country did not provide service to any destination during the low month of FY 2019.⁵

Based on local and national socioeconomic and demographic factors, the Airport's historical share of U.S. domestic enplanements, and the anticipated usage of the Airport by airlines, the total enplaned passengers at the Airport are forecast to increase to approximately 1.6 million in FY 2029, reflecting a CAGR of approximately 3.6 percent over the Projection Period. **Table S-3** summarizes the forecast enplanements at the Airport through the Projection Period. The underlying assumptions and basis for the forecast of enplanements at the Airport through the Projection Period are presented in Section 5.4.2.

FORECAST OF PASSENGER FACILITY CHARGE REVENUES AND DEBT SERVICE COVERAGE

Chapter 6 presents the analysis undertaken by Ricondo to demonstrate the ability of the City to comply with the requirements of the Indenture on a pro forma basis in each year of the Projection Period based on the assumptions regarding the planned issuance of the 2019 Bonds. Forecasts of enplaned passengers, those passengers required to pay a PFC, annual PFC Revenues, PFC debt service, PFC application of Revenues, PFC flow of funds, and PFC debt service coverage were developed for the Projection Period to support the findings and conclusions.

⁵ A total of five airlines did not provide 12 months of continuous service in FY 2018. The fifth airline is Frontier, which did not provide service in September and October 2018.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE S-3 ENPLANED PASSENGER FORECAST

FISCAL YEAR	AIRPORT	
	TOTAL ENPLANEMENTS	ANNUAL GROWTH
Historical		
2009	729,162	
2010	751,722	3.1%
2011	744,843	(0.9%)
2012	836,787	12.3%
2013	878,321	5.0%
2014	928,374	5.7%
2015	966,626	4.1%
2016	959,458	(0.7%)
2017	1,028,798	7.2%
2018	1,113,128	8.2%
FYTD 2018 (Jul.–Apr.)	975,794	
FYTD 2019 (Jul.–Apr.)	1,121,183	14.9%
Forecast		
2019	1,295,504	16.4%
2020	1,331,485	2.8%
2021	1,365,891	2.6%
2022	1,401,067	2.6%
2023	1,435,336	2.4%
2024	1,469,424	2.4%
2025	1,503,651	2.3%
2026	1,537,567	2.3%
2027	1,570,845	2.2%
2028	1,603,531	2.1%
2029	1,635,678	2.0%
Compound Annual Growth Rate		
2009–2018	4.8%	
2018–2029	3.6%	
2019–2029	2.4%	

NOTES: Fiscal Year ending June 30.

FYTD – Fiscal Year-To-Date

SOURCES: City of Palm Springs, May 2019 (historical); Ricondo & Associates, Inc., March 2019 (forecast).

PALM SPRINGS INTERNATIONAL AIRPORT

Key Assumptions incorporated into the PFC forecast include the following:

- PFC Revenues are expected to grow at a CAGR of 2.4 percent during the Projection Period, from approximately \$5.0 million in FY 2019 to approximately \$6.3 million in FY 2029.
- Throughout the Projection Period, the Airport will maintain a \$4.50 per enplaned passenger PFC; the airlines will continue to be eligible to retain \$0.11 of this amount for administrative expenses associated with collection of the PFC at the Airport, and 87.9 percent of all enplaned passengers will pay a PFC.
- Eligible annual expenditures to be funded with PFC Revenues at the Airport include the 2019 Bond debt service and other FAA-approved projects to be funded with PFC Revenues on a Pay-Go basis.
- The City will utilize approximately \$721,081 of PFC Revenue on a Pay-Go basis to provide the non-federal match of Airport Improvement Program (AIP) grants issued for the 2019 Project.
- After the issuance of the 2019 Bonds, total annual debt service is projected to be \$2.5 million annually through the Projection Period (FY 2029). The debt service coverage ratio is expected to range between approximately 2.0x to 2.5x throughout the Projection Period.
- Projected Total PFC Revenues are expected to be sufficient to cover Total PFC Funded Debt Service at the current PFC collection level.

Based on the analysis in this Report and the forecasts presented in Chapter 6, Ricondo is of the opinion that the PFC Revenues generated by the Airport in each year of the Projection Period are expected to be sufficient to pay debt service on the Bonds.

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1. THE 2019 BONDS

1.1 PLAN OF FINANCE

This Chapter describes the 2019 Bonds and the key provisions of the Indenture.

The City is issuing the 2019 Bonds to fund, in part, the Ticketing Hall Expansion Project. This project, described in detail in Section 3.2 of this Report, is referred to herein as the 2019 Project or the Project.

Additionally, proceeds from the 2019 Bonds will be used to fund the reserve requirement for the Bonds and pay the costs incurred in connection with the issuance of the Bonds. Unless otherwise defined herein, all capitalized terms in this Report are used as defined in the Official Statement or the Indenture.

1.1.1 THE 2019 BONDS

Table 1-1 reflects the 2019 Bonds funding plan.

TABLE 1-1 2019 BONDS FUNDING PLAN

SERIES DESIGNATION	PROJECT TO BE FUNDED	BOND FUNDS	TAX STATUS
2019 Bonds	Ticket Hall Expansion Project	\$22,612,570	Tax-Exempt

SOURCE: Harrell & Company Advisors LLC, May 2019.

Table 1-2 presents the estimated sources and uses for the 2019 Bonds.

TABLE 1-2 2019 BONDS SOURCES AND USES

	TOTAL
Sources	
Bond Proceeds	
Par Amount	\$22,315,000
Premium	3,240,045
Total Sources of Funds at Closing	\$25,555,045
Uses	
Other Fund Deposits:	
Debt Service Reserve Fund Deposit	\$2,504,500
Cost of Issuance	311,000
Underwriter's Discount	124,260
Project Fund	22,612,570
Rounding	2,715
Total Uses of Funds at Closing	\$25,555,045

NOTE:

Estimated, subject to change based on final pricing.

SOURCE: Harrell & Company Advisors LLC, June 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

The 2019 Bonds are being issued pursuant to provisions of the authorizing Resolution and secured by the Indenture. The City adopted the Indenture on June 5, 2019, authorizing the issuance of the 2019 Bonds.

For the 2019 Bonds, the City's Municipal Advisor has assumed the following in **Table 1-3**.

TABLE 1-3 2019 BONDS ASSUMPTIONS

	2019 BONDS
Delivery Date	July 16, 2019
Last Maturity Date	June 1, 2031
True Interest Cost	2.72% ¹

NOTE:

1 Estimated, subject to change based on final pricing.

SOURCE: Harrell & Company Advisors LLC, June 2019.

1.2 BOND INDENTURE

Security and Sources of Payment

The 2019 Bonds are secured under the Indenture, dated as of July 1, 2019, by and between the City and the Trustee and are special obligations of the City, payable from and secured by a pledge of and first lien on PFC Revenues imposed by the City. The City's authority to impose a PFC is made under the authority of the Federal Aviation Act and regulations promulgated thereunder (the PFC Regulations), and subject to the limitation on the use of PFC Revenues for such purpose. No other revenues of the City or the Airport are pledged to the payment of the 2019 Bonds.

Pursuant to the Indenture, the 2019 Bonds are payable from and secured by a pledge of and lien on PFC Revenues, amounts on deposit in the Reserve Fund and the Future Capital Account of the Capital Fund, and investment earnings thereon, all as set forth in the Indenture and in the manner described in the Indenture.

The City may issue additional Parity Debt under certain conditions. The lien of the pledge of PFC Revenues to pay the 2019 Bonds and the obligation to perform the contractual provisions made by the Indenture will be on a parity with the lien and pledge under any indenture securing Parity Debt.

The 2019 Bonds are not secured by, and the Owners of 2019 Bonds have no security interest in or mortgage on, the property of the Airport or of the City, and the 2019 Bonds are not secured by a pledge of revenues other than the pledge of PFC Revenues. Default in the payment of the 2019 Bonds will not result in loss of, or any lien on, any property of the City. Should the City default in the payment of the 2019 Bonds the Trustee (1) may declare all unpaid principal, together with accrued interest at the rate or rates specified on the respective outstanding 2019 Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable, and (2) take whatever action at law or in equity that may appear necessary or desirable to accelerate the principal of the Outstanding 2019 Bonds, or enforce performance and observance of any obligation, agreement or covenant of the City under the Indenture.

The 2019 Bonds are limited obligations of the City. The 2019 Bonds do not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has pledged any form of taxation. The 2019 Bonds do not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. Neither the General Fund of the City or

PALM SPRINGS INTERNATIONAL AIRPORT

any operating revenues of the Airport other than PFC Revenues are pledged to or liable for the repayment of the 2019 Bonds.

Reserve Fund

The Reserve Fund is established under the Indenture to be funded in an amount equal to the "Reserve Requirement." As defined in the Indenture, the term "Reserve Requirement" means an amount equal to the least of (a) maximum annual debt service on the 2019 Bonds, (b) 125% of average annual debt service on the 2019 Bonds, and (c) 10% of the initial principal amount of the 2019 Bonds.

Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Reserve Fund shall be applied solely to the payment of principal and interest due with respect to the 2019 Bonds. If, on any Interest Payment Date, the moneys available in the Debt Service Fund do not equal the amount of the principal, interest and redemption premium (if any) with respect to the 2019 Bonds then coming due and payable, the Trustee shall apply the moneys available in the Reserve Fund to pay debt service by transferring the amount necessary for this purpose to the Debt Service Fund or shall draw on the Reserve Policy and apply amounts received from such draw to pay debt service on the 2019 Bonds.

The Indenture provides that in lieu of a cash deposit, the City may satisfy all or a portion of a Reserve Requirement by means of a Qualified Reserve Account Credit Instrument. The amounts on deposit in the Reserve Fund from proceeds of the 2019 Bonds are not available to pay debt service on Parity Debt, if any. Any Qualified Reserve Account Credit Instrument issued with respect to the 2019 Bonds would not be available to pay debt service on Parity Debt, if any.

If the City were to deposit a Qualified Reserve Account Credit Instrument into a Reserve Fund with respect to the 2019 Bonds, the City is not required under the Indenture to replace the Qualified Reserve Account Credit Instrument with cash or a replacement instrument in the event the ratings of the reserve policy provider decline or are withdrawn.

Issuance of Parity Debt

The City may issue additional obligations payable from PFC Revenues on a parity basis with the 2019 Bonds (Parity Debt), subject to the following conditions:

- The proceeds of such Parity Debt are applied to pay the costs of Approved Airport Projects or Future Approved Airport Projects.
- The City shall have obtained a letter or other document from the FAA under which the City is authorized to collect additional PFC Revenues in an amount which is at least equal to the aggregate amount of principal and interest coming due and payable on such Parity Debt.
- No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing.
- The PFC Revenues for the most recent 12-month period are at least equal to 1.75 times the annual debt service on the Outstanding 2019 Bonds and Parity Debt, including the Parity Debt being issued.
- The Supplemental Indenture or other document authorizing the issuance of such Parity Debt shall provide that:
 - interest on the Parity Debt is payable on June 1 and December 1 in each year of the term of the Parity Debt, except that interest during the first twelve-month period may be payable on any June 1 or December 1;

PALM SPRINGS INTERNATIONAL AIRPORT

- the principal of the Parity Debt is payable on June 1 in any year in which principal is payable; and
- an amount is deposited in a reserve fund from the proceeds of the sale of the Parity Debt in an amount equal to the maximum permitted under applicable federal tax law, or a Qualified Reserve Fund Credit Instrument is issued to fund the reserve fund in such amount.

Any Parity Debt issued by the City shall be secured by a pledge of and lien on the PFC Revenues which is on a parity with the pledge and lien which secures the 2019 Bonds. Such Parity Debt will not be secured by or payable from amounts held in the Reserve Fund established for the 2019 Bonds.

Except for Parity Debt, the Indenture restricts the City from issuing bonds, notes or other obligations which are payable from PFC Revenues. The City may issue bonds, notes or other obligations for the purpose of financing additional improvements to the Airport provided such bonds, notes or other obligations are not payable from or secured by a pledge and lien on any of the PFC Revenues.

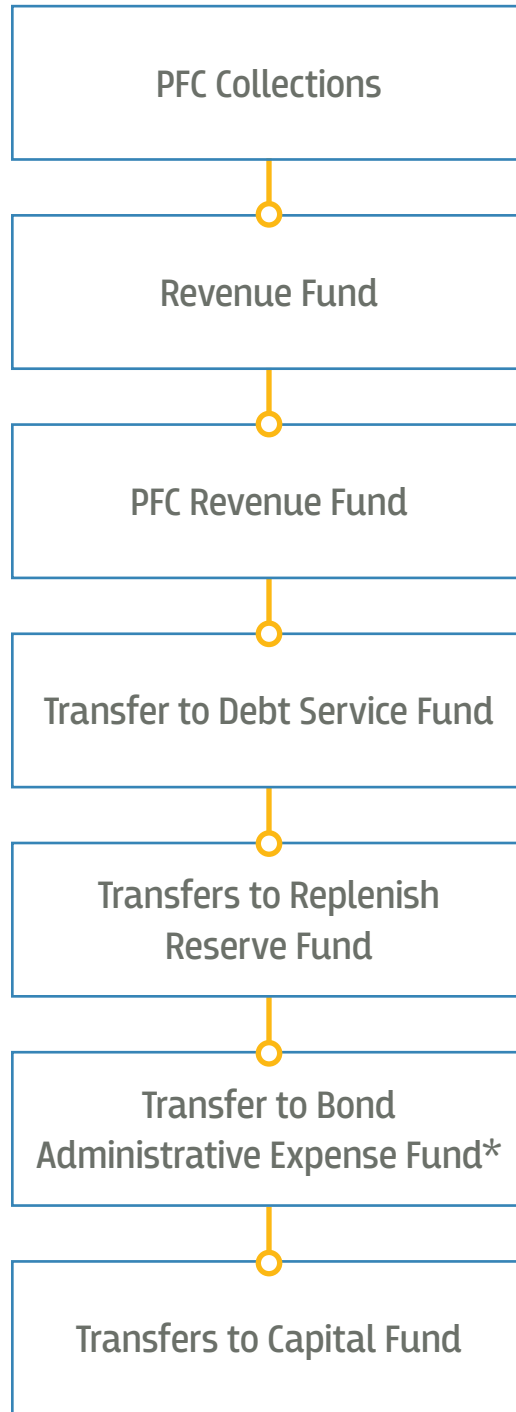
Flow of Funds

As shown in **Exhibit 1-1**, The City will establish the Revenue Fund, which it will hold and maintain for the purposes and uses set forth in the Indenture. The City is to deposit all PFC Revenues in the Revenue Fund. On the last business day of each month, the City will withdraw all PFC Revenues in the Revenue Fund and transfer such amounts to the Trustee for deposit into the PFC Revenue Fund. The PFC Revenue Fund is to be held by the Trustee in trust for the benefit of the Bond Owners and the owners of any Parity Debt. The Trustee shall hold the PFC Revenue Fund and any accounts therein for the uses and purposes set forth in the Indenture, so long as the Bonds or any Parity Debt remain Outstanding. The Trustee will deposit all amounts transferred to it by the City in the PFC Revenue Fund and will apply PFC Revenue for the following purposes and following order of priority: (1) Payment of principal and interest for the 2019 Bonds; (2) Transfers to replenish the Reserve Fund; (3) Transfers to the Bond Administrative Expense Fund to pay all estimated costs to administer the 2019 Bonds and any Parity Debt in the current and succeeding Fiscal Year; and (4) Transfers to the Capital Fund.

On or before the fifth Business Day preceding the calendar day of each month, the Trustee shall withdraw from the PFC Revenue Fund and transfer to the Interest Account of the Debt Service Fund all amounts received until such time during the Bond Year (the Bond Year being the 12 months ending June 1 in each year) as the amount on deposit in the Interest Account equals the interest becoming due and payable on the Bonds and any Parity Debt for the Bond Year. After all required transfers to the Interest Account for the Bond Year have been made, not later than the fifth Business Day preceding the first calendar day of each month, the Trustee shall withdraw from the PFC Revenue Fund and transfer to the Principal Account of the Debt Service Fund all amounts received until such time during the Bond Year as the amount on deposit in the Principal Account equals the principal and sinking account payments, if any, becoming due and payable on the Bonds and any Parity Debt for the Bond Year.

In the event the Trustee determines that there is then a deficiency in the Reserve Fund pursuant to the Indenture, the Trustee shall withdraw from the PFC Revenue Fund and transfer to the Reserve Fund an amount, if any, which is required to restore the balance therein to the full amount of the Reserve Requirement.

Summary of Flow of PFC Revenues Under the Indenture



NOTES:

* No amount shall be transferred to the Bond Administrative Expense Fund until the City has received confirmation from the FAA that the PFC Limit has been increased to include Bond Administrative Expenses or that Bond Administrative Expenses may be paid within the existing PFC Limit.

SOURCE: City of Palm Springs 2019 Airport Passenger Facility Charge Revenue Bonds Preliminary Official Statement dated June 12, 2019.

EXHIBIT 1-1
FLOW OF FUNDS

PALM SPRINGS INTERNATIONAL AIRPORT

Transfers to the Bond Administrative Expense Fund are to occur on June 1 of each Fiscal Year. At that time, the City shall, pursuant to a Certificate of the City, instruct the Trustee to transfer from the PFC Revenue Fund to the Bond Administrative Expense Fund an amount necessary, together with funds available therein, to pay all estimated Bond Administrative Expenses coming due in the current and succeeding Fiscal Year; provided that the total amount of Bond Administrative Expenses shall not exceed \$20,000 for any Fiscal Year. No amount shall be transferred to the Bond Administrative Expense Fund until the City has received confirmation from the FAA that the PFC Limit has been increased to include Bond Administrative Expenses or that Bond Administrative Expenses may be paid within the existing PFC Limit.

The Capital Fund, which is to be established by the Trustee, is to contain a "2019 Capital Account" subaccount. Each June 1st, the Trustee will withdraw from the PFC Revenue Fund all remaining amounts in the Revenue Fund, free and clear of the lien of the Indenture, until such time as the aggregate of all such transfers to the 2019 Capital Account equals \$3,816,263. These sums are to be deposited by the Trustee into the 2019 Capital Account. The City will submit requisitions to the Trustee to withdraw funds from the 2019 Capital Account. Such funds are not pledged to repay the Bonds or any Parity Debt. Upon completing the aggregate transfer of \$3,816,263 to the 2019 Capital Account, the Trustee will establish two additional subaccounts within the Capital Fund to be designated "Future Capital Account", and "Approved Project Account." Thereafter, on each June 1, the Trustee will withdraw from the PFC Revenue Fund and deposit into the Future Capital Account all remaining amounts in the Revenue Fund, to be applied to Future Approved Airport Projects in accordance with the Request of the City provided to the Trustee. "Future Approved Airport Projects" means any additional capital projects of the Airport approved for funding with PFC Revenues by the FAA and not included in the FAA Approval Letter. At such time as the PFC Limit is reached and funds remain in the Future Capital Account, the Trustee shall, upon receipt of a Request of the City, transfer a portion of such funds to the Interest Account and Principal Account each year in the amount necessary to pay debt service on the Bonds and any Parity Debt. At that time, the City shall provide a Report of Independent Financial Consultant stating that the remaining funds in the Future Capital Account are sufficient to pay the remaining principal and interest on the Bonds and any Parity Debt and no further transfers to the Approved Project Account will be permitted.

2. PALM SPRINGS INTERNATIONAL AIRPORT

The Airport is a primary commercial service airport comprising approximately 940 acres within Palm Springs, California.¹ The Airport is owned by the City and operated by the City's Department of Aviation, which is responsible for the operation and maintenance of all Airport facilities, except navigational aids owned and operated by the FAA. Airport management staff are employed by the City, and the Director of Aviation reports directly to the City Manager. A 19-member Airport Commission provides advisory direction on land acquisition and development, project financing, facility leases, and budgets, and it is composed of representatives from the cities of Palm Springs, Desert Hot Springs, Rancho Mirage, Indian Wells, LaQuinta, Palm Desert, Coachella, Indio, and Cathedral City as well as Riverside County.

2.1 LOCATION AND SETTING

The Airport is in Riverside County, California, approximately 2.5 miles from the City's central business district. The Airport sits at 476 feet above mean sea level in the Coachella Valley². The prevailing climate at the Airport and surrounding area is hot and dry, with average daily temperatures ranging from 67 degrees Fahrenheit in December to 107 degrees Fahrenheit in July. The annual average rainfall is approximately 6 inches.³

Vehicle access to the Airport is provided via CA-111 and I-10. Primary surface streets providing access to the terminal building include East Tahquitz Canyon Way, North Farrell Drive, Ramon Road, and Kirk Douglas Way. Sunline Transit Agency offers bus transportation throughout the Coachella Valley, with two stops located within three blocks of the Airport. The Morongo Basin Transportation Authority provides bus service between the Airport and locations in the Yucca Valley and Twentynine Palms. Amtrak offers bus-to-train service between the Airport and Fullerton and Los Angeles.

2.2 AIR TRADE AREA

The geographical area served by an airport is commonly known as the airport's air trade area. The borders of an airport's air trade area are influenced by the location of other metropolitan areas and their associated airport facilities. For purposes of these analyses, the Airport's Air Trade Area consists of the Riverside–San Bernardino–Ontario MSA, as defined by the federal government's Office of Management and Budget. According to the federal government, an MSA is a geographical area with a large population nucleus, along with any adjacent communities that have a high degree of economic and social interaction with that nucleus.⁴

¹ Federal Aviation Administration, Airport Master Record (FAA Form 5010), February 28, 2019.

² The Coachella Valley is a desert valley encompassing approximately 300 square miles, bounded on the west by the San Jacinto Mountains and the Santa Rosa Mountains and bounded on the north and east by the Little San Bernardino Mountains. It consists of the following nine cities: Palm Springs, Desert Hot Springs, Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Indio, and Coachella.

³ National Oceanic & Atmospheric Administration, Summary of Monthly Normals (1981-2010) for Palm Springs International Airport, https://www.ncdc.noaa.gov/cdo-web/datasets/NORMAL_MLY/stations/GHCND:USW00093138/detail (accessed March 24, 2019).

⁴ In 2000, the Office of Management and Budget revised its geographic Census definitions to include metropolitan and micropolitan statistical areas, collectively called core-based statistical areas (CBSA). The metropolitan statistical areas have at least one central urbanized core area of 50,000 people, and the micropolitan statistical areas have at least one urbanized core area of at least 10,000 people, but fewer than 50,000.

PALM SPRINGS INTERNATIONAL AIRPORT

The MSA consists of two counties in California: Riverside (the county in which the Airport is located) and San Bernardino. Socioeconomic data for the Air Trade Area were analyzed in Chapter 4, in conjunction with similar data for California and the United States.

Exhibit 2-1 presents the geographical location of the Airport's Air Trade Area, as well as the Airport's proximity to alternative commercial service airports.

2.3 AIRPORT ROLE AND SURROUNDING AIRPORTS

With approximately 1.2 million enplaned passengers in 2018, the Airport is categorized in the FAA's National Plan of Integrated Airport Systems (NPIAS) as a small-hub primary commercial service airport. According to the 2019 NPIAS Report, there are 72 small-hub airports that together account for almost 8 percent of all enplaned passengers. The NPIAS Report further characterizes small-hub airports as typically having less than 25 percent of runway capacity used by airline/commercial operations, resulting in a large percentage of general aviation activity, with an average of 128 based aircraft at each airport.⁵

Within the California Aviation System Plan, the Airport is located within the Los Angeles Desert Region, which is characterized as being the most populated in the state; it supports the nation's largest and most complex regional aviation system in terms of total number of airports and aircraft operations. The Airport is one of six primary commercial hub airports in the Los Angeles Desert Region.⁶

The Airport serves as the primary commercial and general aviation air transportation center for the Coachella Valley. The Airport is the only public-use airport providing air carrier service within Riverside County and the Coachella Valley. The closest commercial service airport to the Airport is Ontario International Airport in San Bernardino County, at a driving distance of approximately 68 miles. Ontario International Airport is a medium-hub airport, which recorded 2.5 million enplaned passengers in 2018.⁷

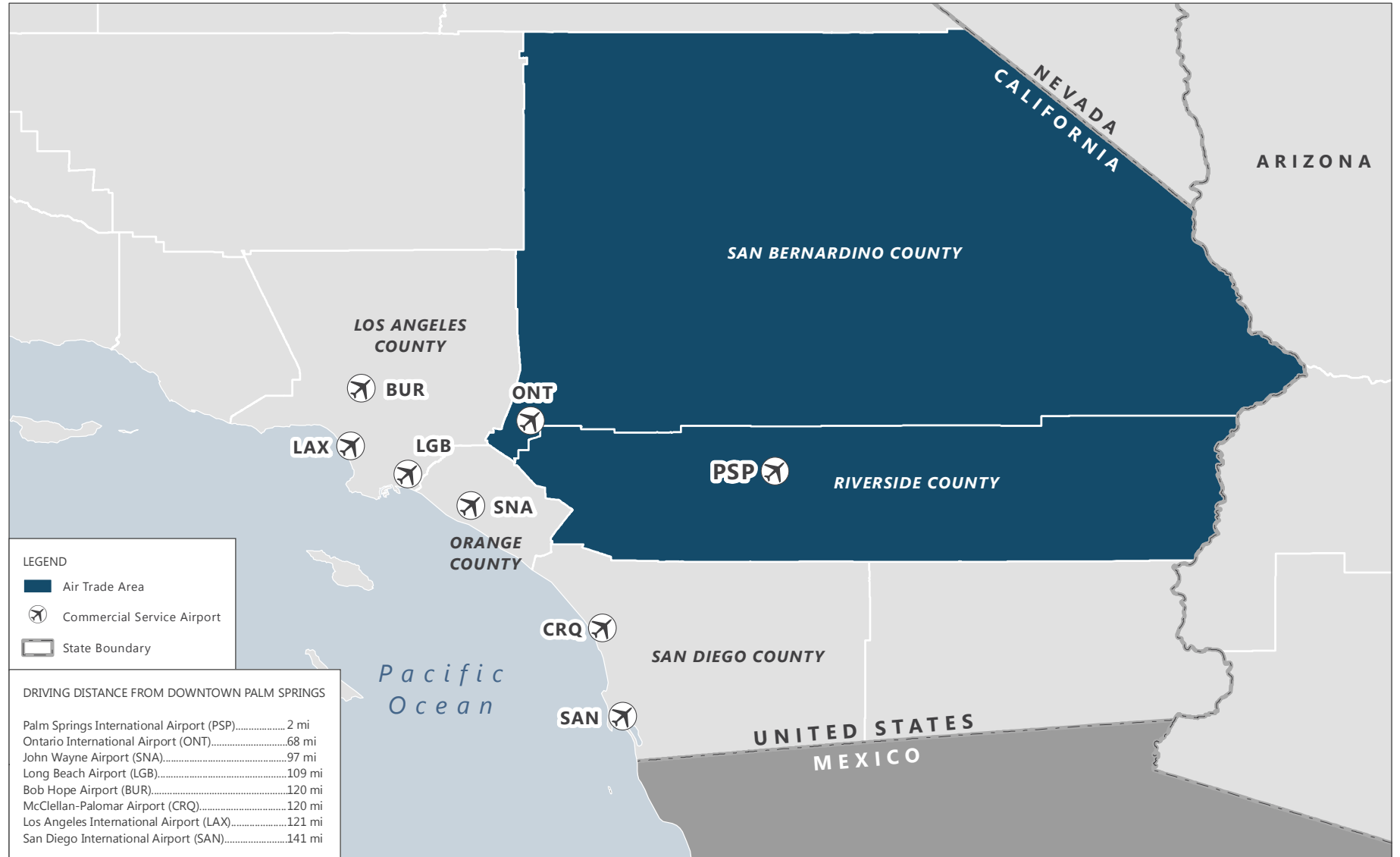
The Airport also has a significant role in providing general aviation services. Only two other airports within the Coachella Valley serve general aviation. Bermuda Dunes Airport (UDD) and Jacqueline Cochran Regional Airport (TRM) are located approximately 13 miles southeast of the Airport and 21 miles southeast of the Airport, respectively. These facilities cater exclusively to general aviation aircraft.

⁵ Federal Aviation Administration, *National Plan of Integrated Airport Systems 2019-2023*, September 26, 2018.

⁶ California Department of Transportation, *California Aviation System Plan*, September 2010.

⁷ Ontario International Airport Authority, https://www.flyontario.com/sites/default/files/ont_airport_statistics_-_dec_20181.pdf (accessed March 24, 2019).

PALM SPRINGS INTERNATIONAL AIRPORT



SOURCES: U.S. Census Bureau, Geography Division, TIGER/Line Shapefiles, 2018 (county, state); Esri, 2010 (airports).

EXHIBIT 2-1



AIR TRADE AREA

2.4 EXISTING AIRPORT FACILITIES

This section describes existing Airport facilities, including the airfield, terminal, terminal curbside, automobile parking, rental car, air cargo, support, and general aviation facilities. **Exhibit 2-2** presents an aerial depiction of the Airport, highlighting key Airport facilities.

2.4.1 AIRFIELD

The airfield facilities at the Airport consist of the runways, taxiways, apron areas, and navigational aids.

2.4.1.1 RUNWAYS AND LIGHTING

The airfield features two parallel runways oriented northwest–southeast. The runways are separated by 700 feet (centerline to centerline), allowing for simultaneous operations on both runways during periods of good visibility.

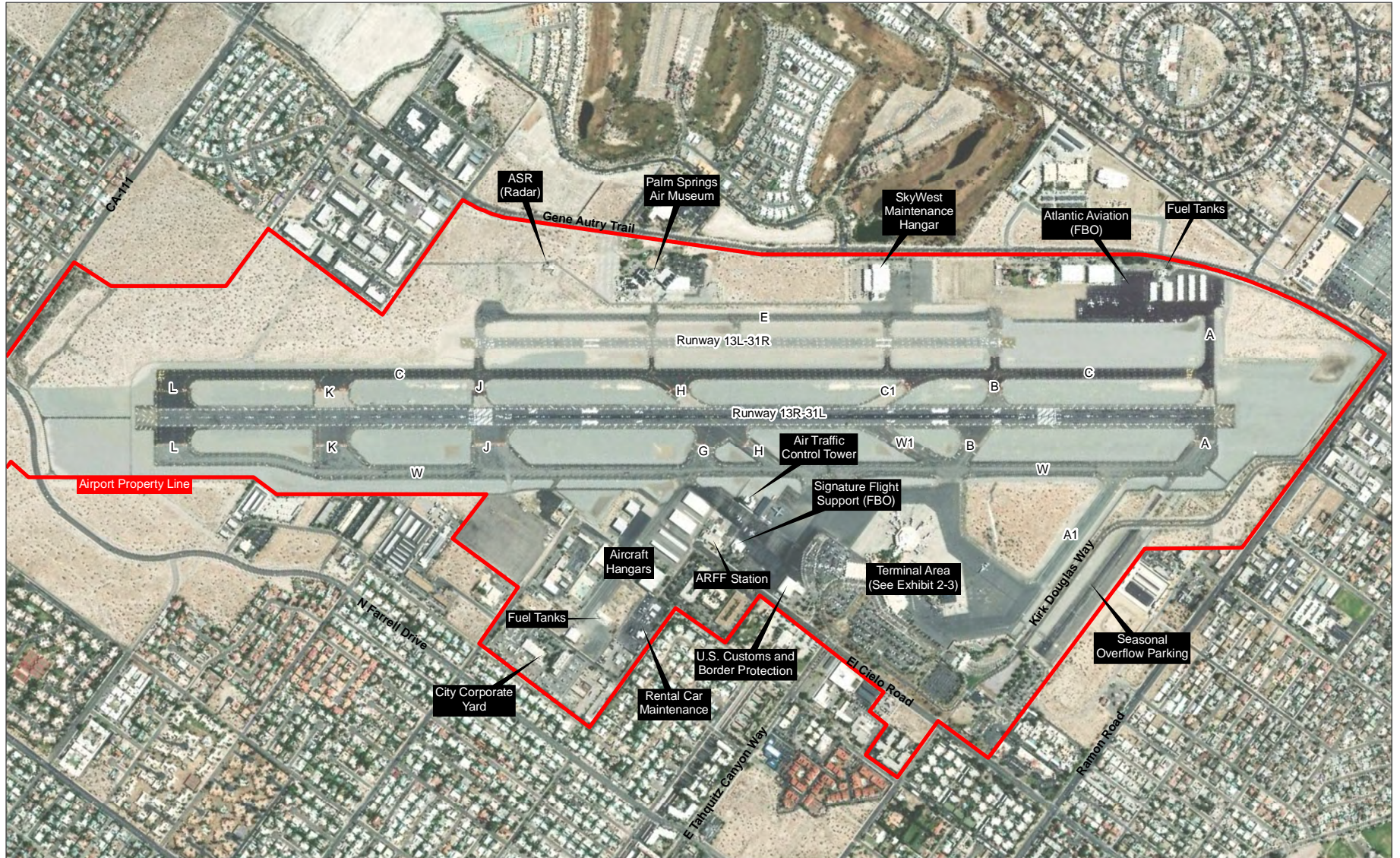
- Runway 13R-31L is the primary runway at the Airport and is used by commercial air carrier and large general aviation aircraft. The grooved asphalt runway is 150 feet wide and 10,000 feet long; although, displaced thresholds at each end restrict available landing distance to 6,857 feet on Runway 13R and 8,500 feet on Runway 31L. A 200-foot blast pad is available on each end of the runway to protect runway pavement from the effects of jet blast. The runway has precision markings and is equipped with high intensity edge lights and runway end identifier lights on each end.
- Runway 13L-31R is designated for small- and medium-size general aviation aircraft. The asphalt runway is 75 feet wide and 4,952 feet long. The runway has basic markings and is equipped with medium intensity edge lights and runway end identifier lights on each end.
- An airport surveillance radar (ASR) is installed at the Airport, which displays both weather and aircraft within the Airport’s terminal airspace. A very-high frequency omnidirectional range tactical air navigation (VORTAC) facility is located 4.5 nautical miles northeast of the Airport and is used by aircraft transiting the Palm Springs airspace. Another VORTAC, located 21.1 nautical miles southeast of the Airport, can be used for nonprecision instrument approach procedures published for the Airport.
- A visual approach slope indicator (VASI) is located on each end of Runway 13R-31L to provide pilots with vertical visual cues and guidance to the runway. Precision approach path indicators (PAPIs) provide similar guidance to pilots approaching either end of Runway 13L-31R.

2.4.1.2 TAXIWAYS

The taxiway system at the Airport is a network of parallel, connecting, runway exits, and runway access taxiways. Runway 13R-31L is served by two full-length parallel taxiways, Taxiways C and W. These taxiways are 75 feet wide. Taxiway W parallels Runway 13R-31L to the west and is separated by 500 feet, runway centerline to taxiway centerline, but it bends 100 feet closer to the runway at the intersection of Taxiway K. Taxiway C is located 400 feet east of Runway 13R-31L and 300 feet west of Runway 13L-31R. Taxiway E is a 50-foot-wide full-length parallel taxiway serving Runway 13L-31R and is separated by a centerline-to-centerline distance of 250 feet to the east. The taxiways west of Runway 13R-31L are designed to be used by aircraft with a wingspan up to 213 feet, such as a Boeing 747 or Boeing 787. Taxiway C can be used by aircraft with a wingspan up to 213 feet when Runway 13L-31R is not in use. The taxiways east of Runway 13L-13R are designed to accommodate aircraft with a wingspan up to 78 feet, such as most small regional jets and mid-size general aviation aircraft.⁸

⁸ HNTB Corporation, *Palm Springs International Airport Master Plan Update*, September 2015.

PALM SPRINGS INTERNATIONAL AIRPORT



SOURCE: Esri, DigitalGlobe, GeoEye, Earthstar Geographics, CNES/Airbus DS, USDA, USGS, AeroGRID, IGN, and the GIS User Community (aerial basemap).

EXHIBIT 2-2



EXISTING AIRPORT FACILITIES

PALM SPRINGS INTERNATIONAL AIRPORT

2.4.1.3 APRON AREAS

Apron areas are paved portions of the airfield where aircraft stop/park for loading and unloading of passengers, cargo, maintenance, and aircraft storage. Apron areas can also be used for the storage and operation of aircraft ground support equipment. Apron areas at the Airport include the terminal apron, fixed-base operator (FBO) aprons, and a maintenance apron, totaling approximately 384,000 square yards, or about 79.5 acres.⁹

The concrete terminal apron encompasses the airside perimeter of the Bono Concourse and the Regional Concourse; it comprises approximately half of the total apron area at the Airport. The terminal apron surrounding the Bono Concourse includes eight marked aircraft parking positions, all of which are served by passenger loading bridges. Four of the parking positions at the Bono Concourse can accommodate widebody aircraft and all eight can accommodate narrowbody aircraft. The apron area surrounding the Regional Concourse is marked for 11 ground-loaded narrowbody aircraft parking positions but can also be utilized by narrowbody aircraft using ground boarding operations.

2.4.2 TERMINAL

The original passenger terminal complex at the Airport was constructed in 1967 and has undergone major expansions and renovations. The current passenger terminal complex comprises approximately 247,000 square feet, including enclosed portions of the terminal, as well as open-air portions primarily utilized for circulation. The terminal complex is designed in a pier configuration, consisting of the following components¹⁰:

- **Terminal Processor** – A one-story terminal processor contains pre-security circulation areas, inbound baggage/claim, rental car customer services area, airline ticketing and operations/offices, outbound baggage makeup and screening, the security screening checkpoint, Airport administration offices (in a mezzanine), concessions, USO offices, and restrooms. Major projects within this facility have included expansion of the ticket lobby and baggage claim in 1992 and expansion of the security screening checkpoint and baggage screening areas in 2007.
- **Bono Concourse** – The two-story Bono Concourse opened in 1999; it features a unique fabric roof and pavilion-style configuration. Ground-level areas include utilities and building maintenance, ground support equipment parking, Airport maintenance and operations offices, airline operations areas, and concession storage areas. The second level includes post-security circulation areas, post-security concessions and storage, an open courtyard, restrooms, and eight airline gates. The enclosed airline gates are clustered around the open-air concourse, separated by glass walls with sliding glass doors. Aircraft access is via loading bridges.
- **Regional Concourse** – The Regional Concourse opened in 2007; it includes concessions, restrooms, and eleven airline gates; three of which are served by remote aircraft hard-stand parking areas for use during peak season travel periods. A gift shop and restaurant/bar opened in 2009. An open landscaped walkway connects the landscaped plaza to the Regional Concourse. Construction of new fabric roof modules covering portions of the walkway was also completed in 2009. Aircraft access is via stairs and ramps.
- **Landscaped Plaza** – An open-air landscaped plaza connects the terminal processor to the Bono Concourse and the Regional Concourse. The plaza features softscape and hardscape landscaping, flight information, food and advertising concessions, and restrooms.

⁹ HNTB Corporation, *Palm Springs International Airport Master Plan Update*, September 2015.

¹⁰ All information regarding terminal components, features, construction dates, and space in this section is sourced from HNTB Corporation, *Palm Springs International Airport Master Plan Update*, September 2015 and discussions with Airport management.

2.4.3 CURBSIDE, AUTOMOBILE PARKING, AND RENTAL CAR FACILITIES

This section describes terminal curbside, automobile parking, and rental car facilities that serve the passenger terminal area.

2.4.3.1 TERMINAL CURBSIDE

The 750-foot-long terminal curbside consists of a three-lane passenger terminal (inner) curb and a three-lane commercial (outer) curb separated by a median. The inner curb is primarily used for the loading and unloading of private vehicles and some commercial vehicles (such as charter buses). The inner curb curbside can accommodate approximately 16 private vehicles at one time and provides parking spaces for Airport police and operations vehicles. The two outermost lanes of the inner curb are through-lanes.

The 750-foot-long commercial outer curb is primarily used for delivery and commercial vehicles. Delivery vehicles are permitted to park unattended at the innermost and outermost lanes of the outer curb. Airport operations vehicles and commercial vehicles (excluding taxis) may also park in the innermost and outermost lanes. Taxis and shuttles park in the inner lane across from the baggage claim area. The outer curb has space at the innermost and outermost lanes for approximately 10 private and 12 commercial vehicles, while the middle lane is a through-lane.

2.4.3.2 AUTOMOBILE PARKING FACILITIES

On-Airport public parking is available in four connected surface lots adjacent to the terminal building. These lots accommodate all vehicles for short or long periods of time (no separate short-term or long-term lots). Public parking facilities are managed by a parking management firm (Ace Parking). Current parking rates are \$1.00 for every 20 minutes and \$17.00 per day or 24-hour period. Effective July 1, 2019, the daily rate will increase to \$20.00. Payment is made via a prepay kiosk in the terminal lobby or via cash or credit card when exiting the parking lot.¹¹

Total public parking capacity is approximately 900 spaces. During the holiday peak season, an 11-acre overflow parking lot on the former site of Taxiway J provides capacity for approximately 700 vehicles. Shuttle buses are provided to transport airline passengers from the overflow lot to the terminal complex.¹²

A cell phone lot is located on Kirk Douglas Way, which provides free short-term parking for arriving passengers to call meeters and greeters when they are ready to be picked up at the Airport.

An employee parking lot is located southeast of the public parking lots and can accommodate approximately 170 vehicles. A smaller employee parking lot is located just south of the terminal building. A multiuse lot is located in front of the terminal. In total, the Airport can accommodate approximately 200 employee vehicles.¹³

Ride-share companies are allowed to operate and provide pick-ups and drop-offs at the Airport. Drop-offs are allowed curbside in front of the terminal building. Pick-ups are permitted at a designated area at the south end of the terminal.

2.4.3.3 RENTAL CAR FACILITIES

Three companies operate eight rental car brands at the Airport: Hertz (Hertz, Dollar, and Thrifty), the Avis Budget Group (Avis and Budget), and Enterprise Holdings (Enterprise, Alamo, and National). Each brand has passenger-

¹¹ City of Palm Springs, <http://www.palmspringsca.gov/government/departments/aviation-palm-springs-international-airport-ppsp/ground-transportation> (accessed March 24, 2019).

¹² HNTB Corporation, *Palm Springs International Airport Master Plan Update*, September 2015.

¹³ Ibid.

PALM SPRINGS INTERNATIONAL AIRPORT

accessible counter space in the baggage claim area of the passenger terminal, as well as ready/return spaces located in a surface parking area immediately north of the baggage claim area. Off-Airport rental car operators include Desert Rent-A-Car, located in Cathedral City, and Go Rentals, located in Palm Springs. Rental car maintenance and service facilities are located off-site from the ready/return lots but are on Airport property.

2.4.4 GENERAL AVIATION

General aviation services at the Airport are provided by two FBOs: Atlantic Aviation, located on the east side of the Airport, and Signature Flight Support, located northwest of the terminal building. Both FBOs lease Airport property to provide general aviation services, such as aircraft parking, fueling, supplies, towing, maintenance, car rental, catering, and storage for personal and corporate aircraft.

The Atlantic Aviation leasehold comprises approximately 28 acres, including aircraft apron, a terminal building, conventional hangars, t-hangars, a restaurant, landside/parking, and fueling. The Signature Flight Support leasehold comprises approximately 33 acres, including aircraft apron, a terminal building, condominium hangars, conventional hangars, t-hangars, landside/parking, and fueling. Both FBOs offer access to a shared U.S. Customs and Border Protection facility.¹⁴

2.4.5 MAINTENANCE/AIRPORT SUPPORT AREAS

Airport support facilities consist of the following:

- **Aircraft Rescue and Firefighting (ARFF) Facility** – The current ARFF facility is a dual role facility (Airport ARFF and City fire station) and can handle emergencies on- and off-Airport.
- **Maintenance Facility** – SkyWest Airlines operates an aircraft maintenance facility east of Runway 13L-31R and north of the Atlantic Aviation FBO. The site area is approximately 5.6 acres and includes 50,000 square feet of office and hangar space, 11,630 square feet of apron, and 60,250 square feet of landside area. The facility provides maintenance for regional jet aircraft.¹⁵
- **Fuel Storage** – Both FBOs operate fuel storage facilities. Atlantic Aviation can store 60,000 gallons of jet fuel in three aboveground storage tanks and 13,000 gallons of jet fuel in three mobile tankers, in addition to 12,000 gallons of AVGAS in one aboveground storage tank and 1,000 gallons of AVGAS in one mobile tanker. Signature Flight Support can store up to 100,000 gallons of jet fuel in five aboveground storage tanks and 35,000 gallons of jet fuel in six mobile tankers, in addition to 12,000 gallons of AVGAS in one aboveground storage tank and 1,750 gallons of AVGAS in two mobile tankers. Signature Flight Support can also store 1,000 gallons of unleaded gasoline and 1,000 gallons of off-road diesel fuel in aboveground storage tanks.¹⁶
- **Air Traffic Control Tower (ATCT)** – The current ATCT is located on the west side of the airfield (west of Taxiway W); it stands approximately 156 feet tall. Construction of the ATCT began in June 2010; the ATCT became operational in July 2013.
- **Air Museum** – The Palm Springs Air Museum is located on the Airport, east of Runway 13L-31R. It contains one of the world's largest collections of World War II airplanes, along with aircraft from other eras. The museum includes four hangars totaling 86,000 square feet, in addition to an apron display area.¹⁷

¹⁴ HNTB Corporation, *Palm Springs International Airport Master Plan Update*, September 2015.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Palm Springs Air Museum, <https://palmspringsairmuseum.org/> (accessed March 24, 2019).

3. 2019 PROJECT AND FUNDING SOURCES

3.1 AIRPORT MASTER PLAN

In 2015, the City prepared a Master Plan Update for the Airport (the Master Plan), in accordance with FAA AC 150/5070-6B, to identify the City's strategy for the development of the Airport, including any expansion, if necessary, and modernization. The Master Plan was prepared to provide the framework needed to guide future Airport development that will cost effectively satisfy aviation demand, while considering potential environmental and socioeconomic impacts.

One of the elements analyzed in the Master Plan is the Airport's terminal facility requirements, including passenger ticketing and check-in requirements. The Master Plan determined the terminal would be deficient in the airline ticket-counter area over the near-term planning horizon, with congestion occurring in the ticketing lobby. The queuing area requires expansion to accommodate future growth of passenger volumes. Specifically, the Master Plan determined the total ticketing area would need to be increased by 10,000 square feet by 2028 to address this growth. Measures were identified to improve the efficiency of the ticketing lobby, including the use of self-check-in kiosks and the implementation of common-use ticket counters.

Another element analyzed in the Master Plan was the Airport's outbound baggage and baggage screening requirements, which relate to the transport of baggage from the ticketing lobby, where passengers and baggage are checked in, to the outbound baggage screening area, where bags are screened by the TSA and sorted by the airlines for transport to outbound aircraft. The Master Plan determined the existing outbound baggage system was inefficiently organized and undersized, requiring expansion by nearly 17,000 square feet by 2028.

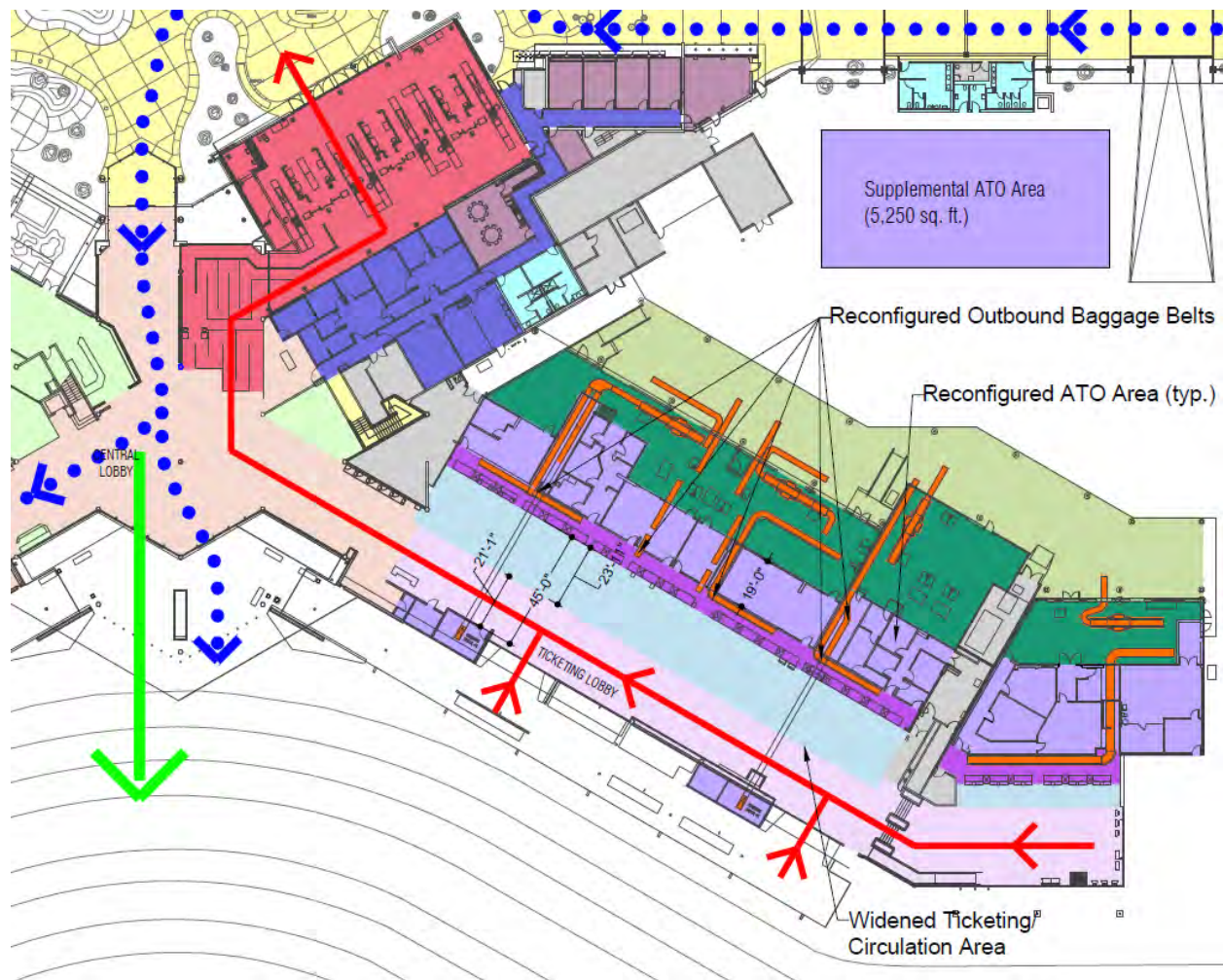
In October 2015, the City approved the Master Plan and identified a Recommended Alternative that included an Interior Terminal Reconfiguration Alternative. The Interior Terminal Reconfiguration would:

- Reconfigure interior space by pushing back (to the east) the ticket counters and reducing the ATO space inside the terminal.
- Modify the terminal footprint by constructing a supplemental 5,000-square-foot building behind the terminal to accommodate displaced ATO functions.
- Reconfigure and relocate the baggage screening area and construct a new BHS.

3.2 THE TICKETING HALL EXPANSION PROJECT

Following adoption of the 2015 Master Plan, the City initiated the design process for a Ticketing Hall Expansion Project (the Project). The Airport's ticketing hall consists of airline ticket counters, public circulation space, airline operations space, and an outbound BHS. By expanding and rehabilitating the ticketing hall, the Project seeks to address the deficiencies identified in the 2015 Master Plan related to ticketing, queuing, public circulation space, and the existing BHS. In May 2017, the City approved the following Project programming objectives, which are also illustrated on **Exhibit 3-1**:

EXHIBIT 3-1 THE 2019 PROJECT – INTERIOR RECONFIGURATION



NOTE:

ATO – Airline Ticket Office

SOURCE: City of Palm Springs, *Palm Springs International Airport Master Plan*, 2015.

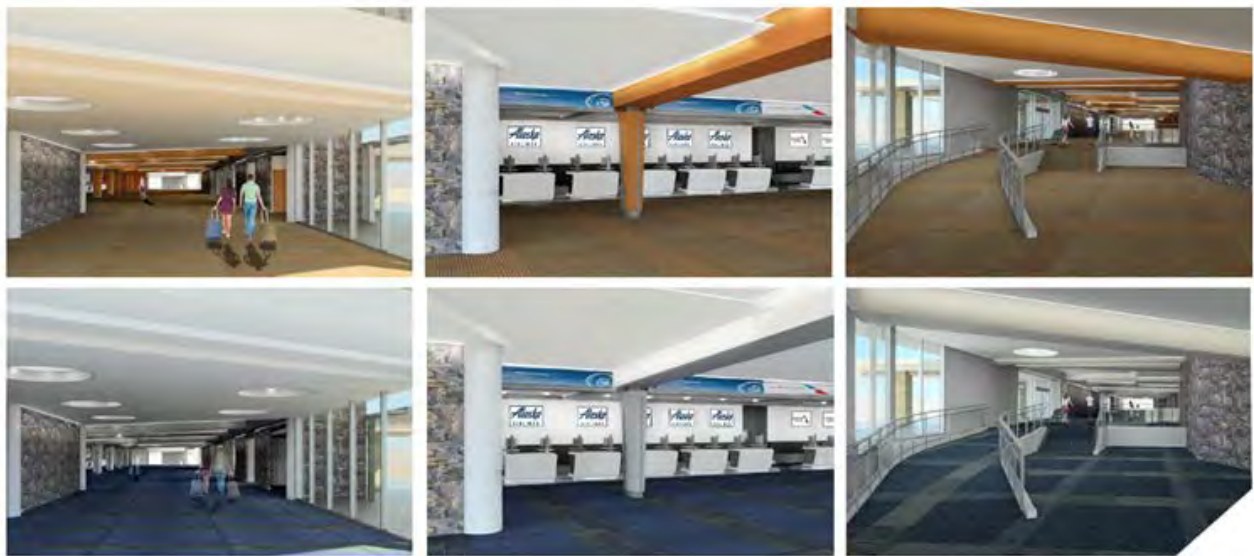
- Work within the confines of the existing terminal footprint to create additional public space through interior remodel and preservation of the terminal's historic front (west) facade.
- Relocate ATO space by 19 feet to the east to create approximately 5,000 additional square feet of public circulation space in the ticketing area.
- Install architecturally and functionally standardized new airline check-in counters, increasing the total customer service positions from 48 to 58.
- Enclose the rear (east side) of the ticketing wing's steel enforced canopy area to create additional conditioned interior space to house the new automated BHS.
- Install an automated BHS to enhance capacity and efficiency throughput; fortify airline and TSA security processes; and centralize the TSA baggage screening area for enhanced processing efficiencies.

PALM SPRINGS INTERNATIONAL AIRPORT

- Expand the passenger circulation corridor to almost double the current capacity.
- Preserve the terminal's aviation theme, while integrating new digital signage technologies for improved messaging from airlines to passengers.
- Increase the number of airline self-check-in kiosks.
- Create appropriate wheelchair storage space.
- Modify the public area ceiling height to reduce ambient noise levels.
- Replace air conditioning, plumbing, and electrical systems with modern, more energy-efficient systems.
- Introduce airline shared-use check-in systems.

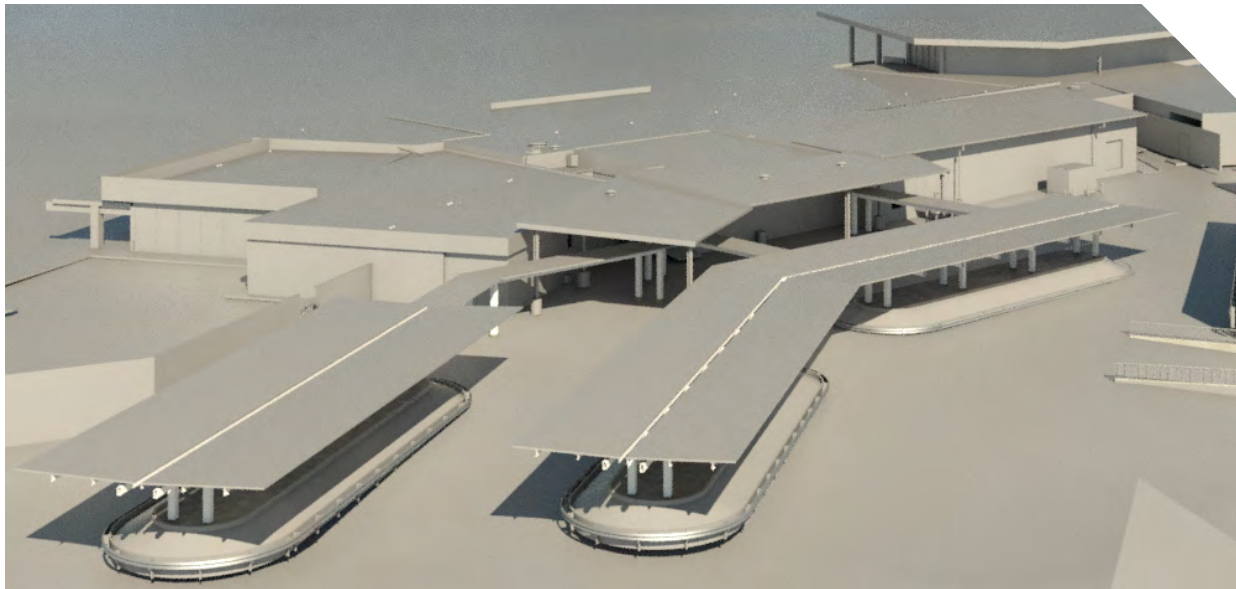
The design of the Project has been developed to maintain the original architectural themes of the terminal building established by architect Donald Wexler. The design approach for the ticketing hall lobby embraces Wexler's original Mid-Century Modern design and reinforces the sense of flight accomplished through the shapes and materials used in the space. A unifying component is the sloped stretched fabric ceiling that extends over the highly visual public circulation and ticket counter queue areas. Its shape and slope invoke the underside of an airplane wing. Gloss painted architectural columns supporting tapered beams are evocative of aircraft landing gear and wing struts. The extruded ticket counters are emblematic of style and class, yet they are configured for passenger and airline agent efficiency of transaction. **Exhibit 3-2** presents renderings of the interior of the renovated ticketing wing, while **Exhibit 3-3** offers a view of the exterior baggage makeup area.

EXHIBIT 3-2 THE 2019 PROJECT – INTERIOR RENOVATIONS



SOURCE: City of Palm Springs, January 2019.

EXHIBIT 3-3 THE 2019 PROJECT – CANOPY RENDERING



SOURCE: City of Palm Springs, January 2019.

3.3 PROJECT FUNDING SOURCES

The Project is estimated to cost \$35,290,700 and will be funded through a combination of the City’s Airport Enterprise Fund, Federal AIP grants, the 2019 Bonds, and PFC Revenue as presented in **Table 3-1**.

TABLE 3-1 PROJECT FUNDING

	COST	FUNDING SOURCE			
		AIRPORT ENTERPRISE FUND	AIP GRANTS	2019 BONDS	PFC REVENUE PAY-GO
<i>2019 Project</i>					
Ticketing Hall Expansion Project	\$35,290,700	\$4,106,718	\$7,850,331	\$22,612,570	\$721,081
TOTAL	\$35,290,700	\$4,106,718	\$7,850,331	\$22,612,570	\$721,081

NOTE: PFC – Passenger Facility Charge

SOURCE: City of Palm Springs, CA, May 2019.

3.3.1 THE AIRPORT ENTERPRISE FUND

The Airport Enterprise Fund is one of three (3) Enterprise funds established by the City to account for business like activities provided to external customers at a cost.¹ The City intends to appropriate \$4,106,718 from the Airport Enterprise Fund for the non-PFC eligible share of the Project.

¹ The City of Palm Springs, California Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018.

3.3.2 AIP GRANTS

The AIP is authorized by Chapter 471 of Title 49 of the United States Code (U.S.C.). Title 49 U.S.C., Section 47104(a) and authorizes the FAA Administrator to make grants for airport planning and development in the United States and certain other entities. AIP grants assist the development of public-use airports served by air carriers, commuters, air cargo and general aviation and as noted above are awarded based upon formula (Entitlements) as well as through a prioritization process (Discretionary).

On May 2, 2019 the City filed a grant application with the FAA for the AIP eligible portion of the construction and construction administration service professional fees for the Project. The City anticipates that the FAA will issue an AIP grant agreement in the amount of \$7,850,331 prior to September 2019.

3.3.3 PASSENGER FACILITY CHARGE REVENUE

The PFC program was established in 1990 and allows airport operators to collect up to \$4.50 for every eligible passenger at U.S. commercial service airports. PFC Revenues may be used to fund FAA-approved projects. Under current federal legislation, PFCs cannot be used for certain revenue-producing projects, such as parking garages, terminal areas used for concessions, and space leased exclusively by an airline.

In 1992, the FAA authorized the City to impose a PFC in the amount of \$3.00 per eligible enplaned passenger. In 2002, the FAA authorized the City to increase its PFC to \$4.50 per enplaned passenger. On April 6, 2018, the FAA approved the City's request to impose and use PFC revenue in the amount of \$48,078,877² for the design, construction, and financing of the Project and further authorized the collection of PFC Revenue at the Airport to October 1, 2037, or until total PFC collections and interest earnings equal this amount, whichever occurs first.

The FAA's approval of the City's PFC application for the Project consists of the following: \$721,081 cash (Pay-Go); \$22,612,570 PFC-backed Bond Capital (estimated); and \$24,745,225 PFC-backed Financing and Interest (estimated). Approved PFC Revenue for Bond Capital and Financing and Interest will be used by the City to retire PFC eligible debt associated with the 2019 Bonds as well as financing and costs of issuance.

The City will utilize approximately \$721,081 of PFC Pay-Go Revenue to provide the non-federal match of the AIP grants issued for the Project.

² This amount does not include an additional \$3,816,262 approved by the FAA for other PFC-eligible projects at the Airport.

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4. DEMOGRAPHIC AND ECONOMIC ANALYSIS

To a large degree, the demand for air transportation at an airport is dependent upon the demographic and economic characteristics of the airport's air trade area. This relationship is particularly true for O&D passenger traffic, which has historically been the largest component of demand at the Airport.¹ Air travel demand at the Airport is influenced by these characteristics as well as the region's role as a major resort area and tourist destination market. This chapter presents data indicating the Airport's Air Trade Area (as defined in Chapter 2) has an economic base capable of supporting increased demand for air travel during the Projection Period.

4.1 DEMOGRAPHIC ANALYSIS

4.1.1 POPULATION

Typically, a positive correlation exists between population growth in a local area and air travel demand. **Table 4-1** presents historical population data for the Air Trade Area, California, and the United States. As shown, population in the Air Trade Area increased from 3,108,220 people in CY 1998 to 4,113,447 people in CY 2008 and to 4,680,550 people in CY 2018. As also shown, population growth in the Air Trade Area between CY 1998 and CY 2018 (2.1 percent CAGR) was greater than that experienced by California (1.0 percent CAGR) and by the nation (0.9 percent CAGR) during this period. According to the most recent U.S. Census Bureau data, the Air Trade Area is presently the 89th-fastest growing metropolitan area in the United States, gaining approximately 156 new residents each day.²

TABLE 4-1 HISTORICAL AND PROJECTED POPULATION

AREA	HISTORICAL			PROJECTED 2029	COMPOUND ANNUAL GROWTH RATE			
	1998	2008	2018E		HISTORICAL			PROJECTED 2018E-2029
					1998-2008	2008-2018E	1998-2018E	
San Bernardino County	1,646,304	2,003,735	2,202,583	2,582,110	2.0%	1.0%	1.5%	1.5%
Riverside County	1,461,916	2,109,712	2,477,967	3,040,806	3.7%	1.6%	2.7%	1.9%
Air Trade Area	3,108,220	4,113,447	4,680,550	5,622,916	2.8%	1.3%	2.1%	1.7%
California	32,987,675	36,604,337	40,020,786	44,638,100	1.0%	0.9%	1.0%	1.0%
United States	275,854,094	304,093,927	328,910,940	363,960,155	1.0%	0.8%	0.9%	0.9%

SOURCE: Woods & Poole Economics, Inc., 2018 Complete Economic and Demographic Data Source (CEDDS), April 2018.

Table 4-1 also presents population projections from Woods & Poole Economics, Inc.³ for the Air Trade Area, California, and the United States for CY 2029. Population in the Air Trade Area is expected to increase at a CAGR of 1.7 percent between CY 2018 and CY 2029, from 4,680,550 people in CY 2018 to 5,622,916 in CY 2029. Projected population growth for the Air Trade Area is expected to be more rapid than that experienced by California and by the nation (1.0 percent CAGR and 0.9 percent CAGR, respectively) during this period. Between CY 2018 and CY 2029, the Air Trade Area population is expected to grow most rapidly in Riverside County (1.9 percent annually).

¹ Based on reconciled U.S. Department of Transportation ticket sample data, O&D passengers accounted for approximately 97 percent of total passengers at the Airport in FY 2018.

² U.S. Census Bureau, Population Division, *Estimates of Resident Population Change and Rankings: July 1, 2016 to July 1, 2017*, March 2018.

³ Woods & Poole Economics, Inc. provides a national economic model that is used to project county-level socioeconomic data through 2050. The model is updated every year, and the historical data and projections used in this report are from the Woods & Poole's 2018 Complete Economic and Demographic Data Source.

PALM SPRINGS INTERNATIONAL AIRPORT

The Air Trade Area, comprised of both San Bernardino and Riverside Counties, is illustrated on Exhibit 2-1. Within the Air Trade Area, the Coachella Valley is a desert valley encompassing approximately 300 square miles, bounded on the west by the San Jacinto Mountains and the Santa Rosa Mountains and bounded on the north and east by the Little San Bernardino Mountains. Coachella Valley consists of the following nine cities: Palm Springs, Desert Hot Springs, Cathedral City, Rancho Mirage, Palm Desert, Indian Wells, La Quinta, Indio, and Coachella.

Coachella Valley is notable for its high seasonal population, as well as its outdoor recreational offerings, visitor experiences, and world-class events which spurs inbound passenger demand. Palm Springs was named one of the top 10 cities to invest in a second home, according to a December 2018 article by *Forbes*.⁴ The year-round population of Coachella Valley is approximately 450,000 residents, with an increase during the winter and spring months of approximately 25 to 30 percent, bringing the total population during these months to approximately 600,000.⁵

4.1.2 AGE DISTRIBUTION AND EDUCATION

The Air Trade Area population is younger than the national average. In 2017, the most recent data available from the U.S. Census Bureau, the Air Trade Area had a median age of 34.0 compared with 36.1 for California and 37.8 for the United States, respectively.⁶ However, the Air Trade Area population has not completed a higher level of education than the national average. In 2017, according to U.S. Census Bureau data, 20.7 percent of citizens in the Air Trade Area age 25 and older had a bachelor's degree or higher compared with 32.6 for California and 30.9 percent for the United States.

4.1.3 PER CAPITA PERSONAL INCOME AND HOUSEHOLD INCOME

One measure of the relative income of an area is personal income, defined as the sum of wages and salaries, other labor income, proprietors' income, rental income of persons, dividend income, personal interest income, and transfer payments less personal contributions for social insurance⁷. Personal income is a composite measurement of market potential, and it indicates the general level of affluence of residents, which typically correlates with an area's propensity to utilize air travel, as well as an area's attractiveness to business and leisure travelers.

Table 4-2 presents historical per capita personal income for the Air Trade Area, California, and the United States between 2008 and 2018, as expressed in 2009 dollars. As shown, per capita personal income for the Air Trade Area was lower than equivalent measures for both California and the nation each year between 2008 and 2018. As also shown, per capita personal income for the Air Trade Area increased at a CAGR of 1.1 percent between 2008 and 2018, slightly lower than the 1.8 percent and 1.2 percent growth rate for California and the nation, respectively, over this same period.

Table 4-2 also presents projections of per capita personal income for 2029. Per capita personal income for the Air Trade Area is projected to increase from \$34,556 in 2018 to \$38,771 in 2029. This increase represents a CAGR of 1.1 percent during this period, compared to a 1.1 percent growth rate projected for California and a 1.2 percent growth rate projected for the nation.

⁴ Forbes, "The Best Places to Invest in a Second Home for 2019," December 12, 2018.

⁵ Vacation Palm Springs, Palm Springs, CA, Cities Overview, <https://vacationpalm Springs.com/palm-springs-ca-cities-overview-real-estate-community-highlights> (accessed March 20, 2019).

⁶ U.S. Census Bureau, *2013-2017 American Community Survey 5-Year Estimates*, December 6, 2018.

⁷ Social insurance includes the contributions, or payments, by employees, the self-employed, and other individuals who participate in certain government programs such as social security, hospital insurance, unemployment insurance, and temporary disability insurance, among others.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 4-2 PER CAPITA PERSONAL INCOME

YEAR	PER CAPITA PERSONAL INCOME			PER CAPITA PERSONAL INCOME DIFFERENTIAL	
	AIR TRADE AREA	CALIFORNIA	UNITED STATES	BETWEEN AIR TRADE AREA AND CALIFORNIA	BETWEEN AIR TRADE AREA AND UNITED STATES
Historical					
2008	\$31,014	\$44,134	\$41,055	\$(13,120)	\$(10,041)
2009	\$29,767	\$42,224	\$39,376	\$(12,457)	\$(9,609)
2010	\$29,360	\$42,612	\$39,622	\$(13,252)	\$(10,262)
2011	\$30,076	\$44,022	\$40,769	\$(13,946)	\$(10,693)
2012	\$30,016	\$45,579	\$41,728	\$(15,563)	\$(11,712)
2013	\$30,149	\$45,168	\$41,377	\$(15,019)	\$(11,228)
2014	\$31,018	\$47,037	\$42,594	\$(16,019)	\$(11,576)
2015	\$32,665	\$49,979	\$44,255	\$(17,314)	\$(11,590)
2016	\$33,223	\$50,884	\$44,450	\$(17,661)	\$(11,227)
2017	\$33,879	\$51,737	\$45,335	\$(17,858)	\$(11,456)
2018E	\$34,556	\$52,550	\$46,097	\$(17,994)	\$(11,541)
Projected					
2029	\$38,771	\$59,073	\$52,391	\$(20,302)	\$(13,620)
Compound Annual Growth Rate					
2008–2018E	1.1%	1.8%	1.2%		
2018E–2029	1.1%	1.1%	1.2%		
PERCENTAGE OF HOUSEHOLDS IN INCOME CATEGORIES (2017)					
INCOME CATEGORY (IN 2009 DOLLARS)	AIR TRADE AREA	CALIFORNIA	UNITED STATES		
Less than \$29,999	26.3%	25.3%	29.0%		
\$30,000 to \$59,999	26.3%	24.0%	26.9%		
\$60,000 to \$74,999	11.1%	10.1%	10.5%		
\$75,000 to \$99,999	14.0%	13.1%	12.6%		
\$100,000 or More	22.2%	27.5%	21.0%		

NOTES:

Per capita personal income is in 2009 dollars.

2018E – 2018 Estimated.

SOURCE: Woods & Poole Economics, Inc., 2017 Complete Economic and Demographic Data Source (CEDDS), April 2018.

An additional indicator of the market potential for air transportation demand is the percentage of households in the higher income categories. An examination of this indicator is important; as income increases, air transportation becomes more affordable and, therefore, is generally used more frequently. Table 4-2 also presents percentages of households in selected per capita personal income categories for 2017 as expressed in 2009 dollars. As presented, 36.2 percent of households in the Air Trade Area had personal income of \$75,000 or more in 2017, which was higher than the percentage of households in these income categories for the nation (33.6 percent), but lower than the equivalent percentage for the state of California as a whole (40.6 percent).

PALM SPRINGS INTERNATIONAL AIRPORT

4.2 ECONOMIC ANALYSIS

4.2.1 GROSS REGIONAL/DOMESTIC PRODUCT

Gross domestic product for the United States and its state and MSA equivalent, gross regional product, are a measure of the market value of all final goods and services produced within a particular area for a specific period of time. These indicators are one of the broadest measures of the economic health of a particular area, and, consequently, the area's potential air travel demand.

Table 4-3 presents historical gross regional/domestic product for the Air Trade Area, California, and the United States between 2008 and 2018, as expressed in 2009 dollars. As shown, the Air Trade Area's gross regional product increased from \$119,265 million in 2008 to \$145,209 million in 2018, a CAGR of 2.0 percent. In comparison, the gross regional product for California increased at a 2.3 percent CAGR, while the nation's equivalent measure grew at a 1.9 percent CAGR.

TABLE 4-3 GROSS REGIONAL PRODUCT / GROSS DOMESTIC PRODUCT

YEAR	GROSS REGIONAL PRODUCT (GRP) OR GROSS DOMESTIC PRODUCT (GDP)		
	AIR TRADE AREA (GRP)	CALIFORNIA (GRP)	UNITED STATES (GDP)
<i>Historical</i>			
2008	\$119,265	\$1,982,637	\$14,617,095
2009	\$111,912	\$1,912,115	\$14,320,115
2010	\$112,651	\$1,933,918	\$14,618,132
2011	\$114,785	\$1,955,177	\$14,792,272
2012	\$114,111	\$2,008,273	\$15,115,991
2013	\$118,975	\$2,068,121	\$15,415,632
2014	\$123,306	\$2,160,934	\$15,860,078
2015	\$130,980	\$2,288,847	\$16,447,679
2016	\$135,466	\$2,367,321	\$16,708,790
2017	\$140,160	\$2,435,936	\$17,204,393
2018E	\$145,209	\$2,493,298	\$17,602,878
<i>Projected</i>			
2029	\$186,865	\$3,042,018	\$21,378,635
<i>Compound Annual Growth Rate</i>			
2008–2018E	2.0%	2.3%	1.9%
2018E–2029	2.3%	1.8%	1.8%

NOTE:

In 2009 dollars; amounts in millions.

2018E – 2018 Estimated.

SOURCE: Woods & Poole Economics, Inc., 2018 Complete Economic and Demographic Data Source (CEDDS), April 2018.

Table 4-3 also presents projections of gross regional/domestic product for 2018 to 2029. Gross regional product for the Air Trade Area is projected to increase from \$145,209 million in 2018 to \$186,865 million in 2029. This increase represents a CAGR of 2.3 percent during this period, compared to a 1.8 percent growth rate for California and a 1.8 percent growth rate for the nation for its equivalent measure.

PALM SPRINGS INTERNATIONAL AIRPORT

4.2.2 EMPLOYMENT TRENDS

Table 4-4 presents recent employment trends for the Air Trade Area, California, and the United States. The civilian labor force excludes military employment and proprietors; it is defined as people who are either employed or who are unemployed and looking for work. As shown, the Air Trade Area's civilian labor force increased from approximately 1,764,000 workers in CY 2007 to approximately 2,025,000 workers in CY 2017. This increase represents a CAGR of 1.4 percent in the Air Trade Area's labor force during this period, compared to a 0.7 percent increase for California and a 0.5 percent increase for the United States.

TABLE 4-4 CIVILIAN LABOR FORCE AND UNEMPLOYMENT RATES

YEAR	CIVILIAN LABOR FORCE		
	AIR TRADE AREA	CALIFORNIA	UNITED STATES
2007	1,764	17,893	153,124
2008	1,774	18,178	154,287
2009	1,773	18,215	154,142
2010	1,867	18,336	153,889
2011	1,867	18,415	153,617
2012	1,879	18,524	154,975
2013	1,893	18,625	155,389
2014	1,921	18,715	155,922
2015	1,957	18,851	157,130
2016	1,985	19,044	159,187
2017	2,025	19,205	160,320
Compound Annual Growth Rate			
2007–2017	1.4%	0.7%	0.5%
2007–2011	1.4%	0.7%	0.1%
2011–2017	1.4%	0.7%	0.7%
YEAR	UNEMPLOYMENT RATES		
	AIR TRADE AREA	CALIFORNIA	UNITED STATES
2007	5.8%	5.4%	4.6%
2008	8.3%	7.3%	5.8%
2009	12.9%	11.2%	9.3%
2010	13.7%	12.2%	9.7%
2011	13.0%	11.7%	9.0%
2012	11.5%	10.4%	8.1%
2013	9.8%	8.9%	7.4%
2014	8.1%	7.5%	6.2%
2015	6.6%	6.2%	5.3%
2016	6.0%	5.5%	4.9%
2017	5.1%	4.8%	4.4%
November 2018	3.9%	3.9%	3.5%

NOTE: Civilian labor force in thousands.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, March 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

As also shown in Table 4-4, average annual unemployment rates (non-seasonally adjusted) for the Air Trade Area were consistently above the unemployment rates for California every year between CY 2007 and CY 2017. Average annual unemployment rates for the Air Trade Area were also above the unemployment rates for the nation in each year over the same period. The Air Trade Area's unemployment rate was 3.9 percent in November 2018, which is the most recent month of data available. This rate was equal to the unemployment rate experienced by California and was higher than the 3.5 percent unemployment rate experienced by the nation during the same period.

Table 4-5 presents an analysis of nonagricultural employment trends by major industry sector; the Air Trade Area's employment trends are compared to those for the nation for 2008, 2017, and 2018. As shown, nonagricultural employment in the Air Trade Area increased from approximately 1,248,000 workers in 2008 to approximately 1,504,000 workers in 2018. This increase represents a CAGR of 1.9 percent during this period, compared to a 0.1 percent CAGR nationwide. Most recently, nonagricultural employment in the Air Trade Area and the nation increased at higher rates (3.4 percent and 1.7 percent, respectively, between 2017 and 2018), with the Air Trade Area maintaining higher levels of growth than the nation.

Five of the nine major industry groups in the Air Trade Area experienced positive employment growth between 2008 and 2018, with the highest growth occurring in the transportation/utilities sector. The nation's nonagricultural employment base experienced decreases or minimal increases (i.e., 0.2 percent or less) in most sectors over the same period, apart from increases in the services and transportation/utilities sectors. Also, the Air Trade Area's percentages of nonagricultural employment in the construction, trade, transportation/utilities, and government sectors in 2018 exceeded the national percentages by approximately 1.7, 1.8, 4.8, and 2.1 percentage points, respectively.

The traditional long-term trend of the substitution of the manufacturing base with service jobs was observed in the employment mix nationwide and in the Air Trade Area over the time period between 2008 and 2018. Manufacturing employment in the nation decreased from 9.8 percent to 8.5 percent of total employment, and services increased from 40.8 percent to 44.8 percent of total employment. Manufacturing employment in the Air Trade Area decreased from 8.6 percent of total employment in 2008 to 6.7 percent of total employment in 2018, while services employment in the Air Trade Area increased from 37.3 percent to 40.3 percent of total employment during this time period.

4.2.3 BUSINESS CLIMATE

In the 2017 Milken Institute Best-Performing Cities Index, the Air Trade Area ranked 20th out of the 200 largest U.S. metropolitan areas based on how well an area creates and sustains employment and economic growth.⁸

The business climate in the Air Trade Area offers significant advantages to new, expanding, and relocating companies, including favorable local wage costs, availability of land and office space, and proximity to major shipping markets.

Table 4-6 presents major employers in the Air Trade Area, as measured by the number of employees. As shown, approximately 22 private or public entities are in the Air Trade Area with 3,200 or more employees. The largest employer in the Air Trade Area is the County of Riverside, with approximately 21,215 employees, followed by the Arrowhead Regional Medical Center (18,000 employees); Stater Bros. Market (18,000 employees); County of San Bernardino (17,395 employees); and March Air Reserve Base (9,000 employees).

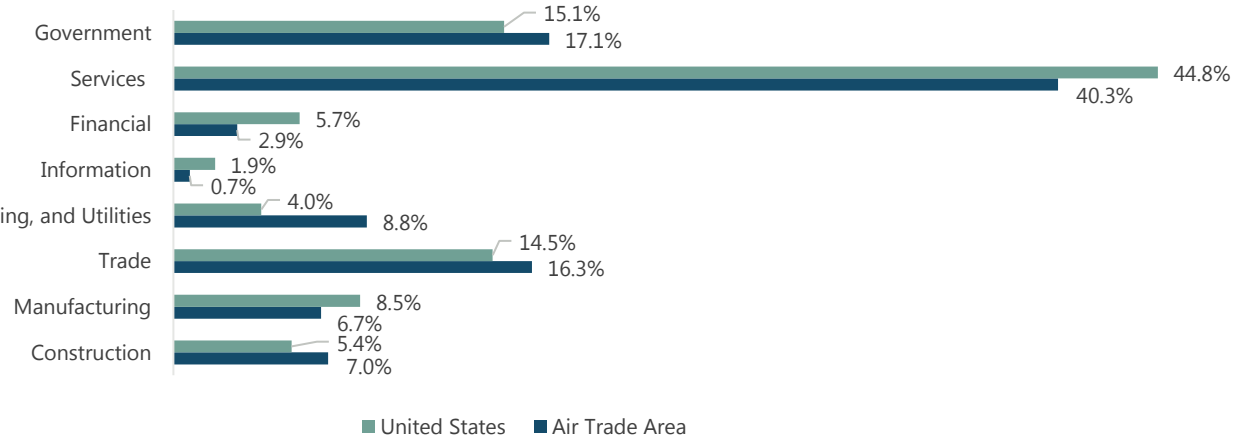
⁸ Milken Institute, "Best-Performing Cities 2017: Where America's Jobs are Created and Sustained," January 10, 2018.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 4-5 EMPLOYMENT TRENDS BY MAJOR INDUSTRY SECTOR (EMPLOYMENT IN THOUSANDS)

SECTOR	AIR TRADE AREA NONAGRICULTURAL EMPLOYMENT					UNITED STATES NONAGRICULTURAL EMPLOYMENT				
	2008	2017	2018	COMPOUND ANNUAL GROWTH RATE	COMPOUND ANNUAL GROWTH RATE	2008	2017	2018	COMPOUND ANNUAL GROWTH RATE	COMPOUND ANNUAL GROWTH RATE
				2008-2018	2017-2018				2008-2018	2017-2018
Construction ¹	92	98	106	1.4%	7.7%	7,929	7,645	8,021	0.1%	4.9%
Manufacturing	107	99	101	-0.5%	2.1%	13,406	12,439	12,689	-0.5%	2.0%
Trade	222	244	246	1.0%	0.9%	21,164	21,659	21,686	0.2%	0.1%
Transportation/Warehousing/Utilities	70	122	133	6.6%	8.6%	5,072	5,750	5,974	1.6%	3.9%
Information ²	15	11	11	-2.7%	-0.9%	2,984	2,814	2,828	-0.5%	0.5%
Financial	46	44	44	-0.5%	-1.1%	8,206	8,451	8,569	0.4%	1.4%
Services ³	466	585	606	2.7%	3.6%	55,971	65,517	66,859	1.8%	2.0%
Government	231	251	258	1.1%	2.6%	22,509	22,350	22,449	0.0%	0.4%
Total⁴	1,248	1,455	1,504	1.9%	3.4%	137,241	146,625	149,074	0.8%	1.7%

Percent of 2018 Nonagricultural Employment



NOTES:

- 1 Includes mining employment.
- 2 The information sector includes communications, publishing, motion picture and sound recording, and online services.
- 3 The nonagricultural employment for the services sector includes outsourcing from the manufacturing sector.
- 4 Totals may not sum due to rounding.

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, March 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 4-6 MAJOR EMPLOYERS IN THE AIR TRADE AREA

EMPLOYER	INDUSTRY	EMPLOYEES
County of Riverside	County Government	21,215
Arrowhead Regional Medical Center	Hospital	18,000
Stater Bros. Markets	Market	18,000
County of San Bernardino	County Government	17,395
March Air Reserve Base	Military Reserve Base	9,000
University of California, Riverside	University	8,735
San Bernardino City Unified School District	School District	8,574
Ontario International Airport	Airport	7,510
Kaiser Medical Center	Hospital	5,682
Kaiser Permanente Riverside Medical Center	Hospital	5,592
Corona-Norco Unified School District	School District	4,989
Pechanga Resort & Casino	Resort Casino	4,683
Loma Linda University Medical Center	Hospital	4,676
Riverside Unified School District	School District	4,335
Hemet Unified School District	School District	4,302
Fontana Unified School District	School District	3,953
Loma Linda University	University	3,906
Eisenhower Medical Center	Hospital	3,743
Moreno Valley Unified School District	School District	3,684
Riverside University Health System- Medical Center	Hospital	3,453
Morongo Casino, Resort, & Spa	Resort Casino	3,450
San Manuel Band of Mission Indians	Tribal Government/Casinos	3,261

SOURCES: Riverside Economic Development Agency, 2018; San Bernardino Area Chamber of Commerce, 2018.

4.2.4 MAJOR EMPLOYMENT SECTORS

The following subsections further address the sources of the diverse economic sectors; they are ordered based on the sector's percentage contribution to the Air Trade Area's local employment base.

Services

Services employment in the Air Trade Area increased at a CAGR of 2.7 percent between 2008 and 2018, compared to a 1.8 percent increase for the nation over the same period. In 2018, the services sector accounted for approximately 606,000 employees in the Air Trade Area, which accounted for 40.3 percent of total nonagricultural employment, the highest employment level among all sectors.

Key components of the services sector within the Air Trade Area include travel and tourism, health services, and higher education. Professional services providers primarily employ smaller numbers of employees per firm; they are not discussed separately in this section.

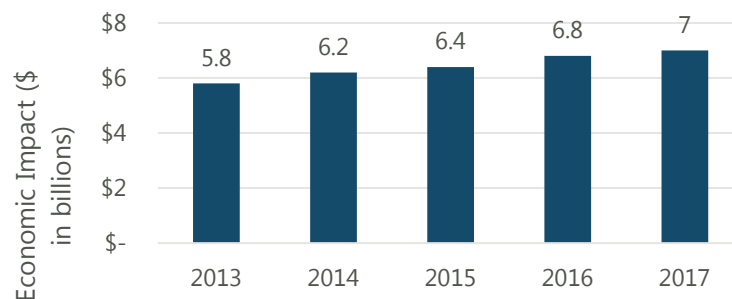
Travel and Tourism

The Greater Palm Springs area, or Coachella Valley, is a popular tourist destination known for its warm weather, upscale amenities, and desert landscape. Historically a common destination for retirees, the Coachella Valley has begun to attract younger visitors with the addition of numerous arts, music, and culture festivals.

PALM SPRINGS INTERNATIONAL AIRPORT

According to the Greater Palm Springs Convention and Visitors Bureau, 1 in 4 jobs in Greater Palm Springs is sustained by tourism⁹. The estimated 13.6 million visitors to the area in 2017 were responsible for an estimated \$5.5 billion in visitor spending, a 10.0 percent increase over 2015 visitor spending. Tourism spending in Greater Palm Springs primarily consists of food and beverage, lodging, and retail spending; it is estimated that each visitor spends a total of approximately \$402 per trip⁹. An additional indicator of tourism's impact on Coachella Valley's economy is the amount of revenues associated with sales and transient revenue taxes. In the City of Palm Springs, transient occupancy tax is the City's most significant revenue source; over the past ten years, transient occupancy tax in Palm Springs has increased 516 percent, from \$5.6 million in 2008-2009 to \$34.2 million in 2017-2018¹⁰. The estimated total economic impact of tourism in Greater Palm Springs is shown below in **Exhibit 4-1**.

EXHIBIT 4-1 TOTAL ECONOMIC IMPACT OF TOURISM, GREATER PALM SPRINGS



SOURCE: Greater Palm Springs Convention and Visitors Bureau, 2017 Report on the Economic Impact of Tourism.

According to a February 2018 report from Tourism Economics, the City of Palm Springs had a total of 1,986 units registered as vacation rentals and homeshares that hosted an estimated 467,000 visitors in 2017.¹¹ In 2009, less than 1,000 units were registered as vacation rentals. This substantial increase, essentially a doubling of vacation rental units in eight years, is roughly equivalent to a 9 percent growth each year. Transient occupancy tax revenues have also roughly doubled over this time period, from nearly \$15 million in FY 2008 to nearly \$30 million in FY 2017. It is estimated that over 69,000 non-primary properties are located in Coachella Valley as a whole¹².

In addition to vacation rentals, the area's numerous hotels provide a popular lodging option for tourists. A variety of hotels are in the area; however, the City is particularly known for its selection of boutique hotels and mid-century modern architecture. Since 2012, the increase in hotel room demand has outpaced the increase in hotel room supply in the Greater Palm Springs area. For example, in 2017, room demand expanded 3.0 percent, while supply grew 2.2 percent. As a result, a number of hotels are currently under construction or are being planned in Coachella Valley over the next five years in order to address the increasing demand by visitors to the region. The additional hotels could bring over 1,000 additional rooms to the existing 15,000 rooms in the area.

Additionally, each new property brings additional jobs to the Air Trade Area. The new hotels will include a wide variety of brands, ranging from low-budget to luxury hotels.

⁹ Greater Palm Springs Convention and Visitors Bureau, *2017 Report on the Economic Impact of Tourism*.

¹⁰ City of Palm Springs, California, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2018*.

¹¹ Tourism Economics, "An Assessment of the Proposed Change in Vacation Rental Regulations in Palm Springs, CA," February 2018.

¹² Greater Palm Springs Convention and Visitors Bureau, *Non-Primary Residences by Location of Owner*, July 2017.

PALM SPRINGS INTERNATIONAL AIRPORT

Hotel occupancy in the Air Trade Area reached 79.7 percent in the first 10 months of 2018, a 0.5 percent increase from the same period in 2017¹³. The average daily room rate in the Greater Palm Springs area in 2017 was \$162 per night, a 1.1 percent increase over the prior year. Hotel room supply grew 2.2 percent in 2017, including the opening of the 153-room Kimpton Rowan in Palm Springs.¹⁴

The Palm Springs Convention Center is located near downtown Palm Springs and features 120,000 square feet of carpeted exhibit space, 21 breakout rooms, a 20,000-square-foot ballroom, an 18,000-square-foot lobby, and a 20,000-square-foot event lawn. The Convention Center is attached to the Renaissance Palm Springs Hotel, which provides an additional 30,000 square feet of meeting space and 410 guest rooms. In addition, over 1,600 hotel rooms are located within walking distance from the Convention Center. The Convention Center hosts over 100 events each year, serving over 134,000 attendees in 2018.¹⁵

The Greater Palm Springs area offers a wide variety of tourist attractions, including outdoor art and music attractions. In the Air Trade Area, Joshua Tree National Park is known for its hiking, camping, rock climbing, and ranger programs. Mount San Geronio, located in the San Bernardino Mountains, is the tallest peak in Southern California. The Coachella Valley features 125 golf courses and clubs and hosts numerous golf tournaments each year, earning its nickname as the "Golf Capital of the World."¹⁷

Additional tourist attractions include the Palm Springs International Film Festival, Desert X art exhibition, Coachella Valley Music and Arts Festival, the Living Desert Zoo and Gardens, La Quinta Arts Festival, the Palm Springs International ShortFest, the PGA Desert Classic, Greater Palm Springs Pride Week, the Club Skirts Dinah Shore Weekend, Modernism Week, Stagecoach Country Music Festival, the Aerial Tramway, and the BNP Paribas Open tennis tournament. Each of these events attract visitors to the area; the BNP Paribas Open alone draws over 400,000 visitors to the Air Trade Area each March¹⁶.

Health Services

Six major hospitals are located in the Air Trade Area, each employing more than 3,400 people. The largest in the area, Arrowhead Regional Medical Center, employs approximately 18,000 people and is operated by the County of San Bernardino. The Center is a university-affiliated teaching hospital, offers 456 beds, includes four primary care centers, and provides over 40 outpatient specialty care services.¹⁷

Two other health care systems, Kaiser Permanente Fontana and Kaiser Permanente Riverside Medical Center, employ over 11,000 people combined. The Fontana area system includes hospitals in Fontana and Ontario, as well as medical offices in Fontana, Ontario, Rancho Cucamonga, Colton, Claremont, Montclair, Chino, San Bernardino, Victorville, Redlands, and Upland.

Loma Linda University Medical Center offers nearly 900 beds and includes both a children's hospital and a surgical hospital. With over 400 faculty physicians, the hospital operates some of the largest clinical programs in the nation,

¹³ UC Riverside Center for Economic Forecasting and Development, School of Business, *Inland Empire Regional Intelligence Report, Fourth Quarter 2018*, December 2018.

¹⁴ Greater Palm Springs Convention and Visitors Bureau, *2017 Report on the Economic Impact of Tourism*; Katy Carrier, "New Hotels In Greater Palm Springs," Greater Palm Springs Convention and Visitors Bureau, December 19, 2018.

¹⁵ Greater Palm Springs Convention and Visitors Bureau, *Destination Development Plan*, May 2016.

¹⁶ Luigi Major, "Market Pulse: Palm Springs and Desert Cities," HVS, February 14, 2018.

¹⁷ The information included in this section is from the various hospital system websites, as well as from Inland Empire Regional Chamber of Commerce data.

PALM SPRINGS INTERNATIONAL AIRPORT

and it admits more than 33,000 inpatients and serves approximately half a million outpatients each year. In February 2019, the Loma Linda University Children's Hospital received a \$25 million donation from the San Manuel Band of Mission Indians. The gift contributes to the Hospital's Vision 2020 campaign, a plan to construct a new adult hospital and a new children's hospital tower to address the health needs of the Air Trade Area.

Eisenhower Medical Center, a non-profit teaching hospital, employs over 3,500 people and provides healthcare for residents throughout the Coachella Valley. Eisenhower Health includes a 463-bed hospital as well as a health science building, a children's center, and various outpatient facilities in Palm Springs, Cathedral City, Palm Desert, Rancho Mirage, and La Quinta. The Betty Ford Center, one of the nation's leading drug rehabilitation centers, is also located on the 130-acre main campus.

Higher Education

The Air Trade Area has more than 20 college and university campuses that provide access to a full spectrum of higher educational opportunities.¹⁸ These educational institutions generate demand for airline travel through academic meetings and conferences, visiting professorships, study abroad programs, and individual student and faculty travel. The two largest higher educational institutions include the University of California, Riverside (which employs approximately 8,700 people in the Air Trade Area and has approximately 5,500 graduates annually) and Loma Linda University (which enrolls more than 4,400 students and employs more than 3,900 faculty and staff).

Government

Government employment in the Air Trade Area increased at a CAGR of 1.1 percent between 2008 and 2018, while 2018 government employment levels for the nation as a whole matched 2008 levels. In 2018, this sector accounted for approximately 258,000 employees in the Air Trade Area, which accounted for 17.1 percent of total nonagricultural employment.

As shown in Table 4-6, numerous governmental organizations are among the major employers in the Air Trade Area. The largest U.S. federal government employer is the March Air Reserve Base, with 9,000 employees. The largest public primary/secondary educational employers are the Corona-Norco Unified and San Bernardino City Unified School Districts (each with more than 4,900 employees); and the largest local government employers are Riverside and San Bernardino Counties.

March Air Reserve Base, located between the cities of Riverside, Moreno Valley, and Perris, is one of the nation's oldest military camps, first established in 1918. The base is home to the Air Force Reserve Command's largest air mobility wing. It primarily consists of the 452nd operations group, but it is also home to units from the Army Reserve, Navy Reserve, Marine Corps Reserve, and Air National Guard.

Trade

Trade employment in the Air Trade Area increased at a CAGR of 1.0 percent between 2008 and 2018, compared to an increase of 0.2 percent for the nation over the same period. In 2018, the trade sector accounted for approximately 246,000 employees in the Air Trade Area, which accounted for 16.3 percent of total nonagricultural employment.

One indicator of growth in the trade sector is retail sales, defined as all net sales (gross sales minus refunds and allowances for returns) for establishments engaged primarily in retail trade. Major retailers are well represented in the Air Trade Area, with over a dozen shopping malls. Retailers offer a wide variety of products, including several

¹⁸ The information included in this section is from the various colleges' websites, as well as from Inland Empire Regional Chamber of Commerce data.

PALM SPRINGS INTERNATIONAL AIRPORT

high-end brands, in addition to an array of boutiques and specialty shops. Several outdoor outlet malls are found in the area, taking advantage of the region's temperate climate. Ontario Mills, located in San Bernardino County, is the largest outlet center in the state of California, offering a selection of more than 200 stores, as well as several restaurants, a comedy club, and a movie theater. The Cabazon Outlets, an outdoor shopping outlet located between Los Angeles and Palm Springs, features 18 specialty retailers and covers 65,000 square feet. Adjacent to Cabazon Outlets is the Desert Hills Premium Outlets, featuring 180 designer stores.

Table 4-7 presents total retail sales for the Air Trade Area, California, and the United States between 2008 and 2018. As shown, between 2008 and 2009, total retail sales in the Air Trade Area decreased at a CAGR of 7.9 percent, similar to the 7.8 percent decrease in California and greater in magnitude than the 7.4 percent decrease the United States experienced during this period due to the economic recession in 2008 and 2009. Between 2009 and 2018, Air Trade Area retail sales increased at a CAGR of 3.1 percent, greater than the 2.7 percent increase for both California and the United States over this period.

TABLE 4-7 TOTAL RETAIL SALES

YEAR	AIR TRADE AREA	CALIFORNIA	UNITED STATES
Historical			
2008	\$49,985	\$504,637	\$4,303,170
2009	\$46,059	\$465,028	\$3,984,634
2010	\$47,998	\$480,529	\$4,130,414
2011	\$50,239	\$501,860	\$4,325,118
2012	\$51,612	\$515,978	\$4,459,332
2013	\$52,822	\$528,362	\$4,559,908
2014	\$54,431	\$543,414	\$4,682,944
2015	\$55,806	\$555,845	\$4,786,890
2016	\$57,163	\$566,421	\$4,880,293
2017	\$59,020	\$580,786	\$4,999,879
2018E	\$60,445	\$590,716	\$5,081,233
Projected			
2029	\$75,876	\$688,043	\$5,874,009
Compound Annual Growth Rate			
2008–2009	-7.9%	-7.8%	-7.4%
2009–2018E	3.1%	2.7%	2.7%
2008–2018E	1.9%	1.6%	1.7%
2018E–2029	2.1%	1.4%	1.3%

NOTE: In 2009 dollars; amounts in millions.

SOURCE: Woods & Poole Economics, Inc., 2018 Complete Economic and Demographic Data Source (CEDDS), April 2018.

Table 4-7 also presents projections of total retail sales for 2029. Total retail sales for the Air Trade Area are projected to increase from approximately \$60 billion in 2018 to approximately \$76 billion in 2029. This increase represents a CAGR of 2.1 percent, compared to a 1.4 percent growth rate for California and a 1.3 percent growth rate for the nation.

International trade is also an important component of the California and Air Trade Area economies. According to the February 2018 report from the U.S. Department of Commerce's International Trade Administration, over 683,772 jobs in California depend on international trade, and 92 percent of these jobs were supported by manufactured

PALM SPRINGS INTERNATIONAL AIRPORT

goods exports¹⁹. Based on 2015 data, export-supported jobs account for approximately 5 percent of California's total private-sector employment. In 2016, the Air Trade Area exported \$10.2 billion in merchandise, making it the fifth largest exporter in California. This was an increase of 14 percent (\$1.2 billion) over 2015 exports. Air Trade Area exports have grown 144 percent since 2006, and they now account for 6 percent of California's total merchandise exports. Primary metal manufactures comprise the largest share of exports²⁰.

Transportation, Warehousing, and Utilities

Transportation, warehousing, and utilities employment in the Air Trade Area increased at a CAGR of 6.6 percent between 2008 and 2018 (the fastest rate of increase of any Air Trade Area industry sector between 2008 and 2018), compared to an increase of 1.6 percent for the nation over the same period. In 2018, the transportation, warehousing, and utilities sector accounted for approximately 133,000 employees in the Air Trade Area, which accounted for 8.8 percent of total nonagricultural employment.

The primary contributor to the growth of this sector in the Air Trade Area is the rapid increase in warehousing employment in recent years. Warehousing operations employment increased by 146 percent in the Air Trade Area in the 5-year period from 2013 to 2018, supporting the area's shopping needs through the growth of companies such as Amazon, Handsome Rewards, Burlington Coat Factory, and Starcrest Products.²¹ Amazon is a major employer in the Air Trade Area as evidenced by the fact that in November 2018, it announced the construction of its 14th nationwide fulfillment center in Beaumont. In addition, FedEx Express recently entered into an agreement with San Bernardino International Airport to lease up to 57,000 square feet of industrial space for cargo flight operations.²² Political changes such as tariffs and other taxes may affect the transportation, warehousing, and utilities sector in the future, but the overall effect is unknown at this time.

Air transportation demand in the Air Trade Area is serviced by the Airport, as well as by Ontario International Airport and Los Angeles International Airport. The Air Trade Area is also supported by additional transportation infrastructure, providing both passenger and freight access:

- The Air Trade Area is directly connected to major U.S. markets via an integrated network of interstate highways. Several interstate highways intersect the Air Trade Area, including I-215, I-15, I-40, and I-10. The interstates serve to connect the various cities within the Air Trade Area, as well as to connect the Air Trade Area to larger markets, such as Los Angeles and San Diego.
- Freight rail service in the Air Trade Area is provided by BNSF Railway and YRC Freight, which operate large, well-equipped rail yards and are major employers in San Bernardino County.
- Passenger rail service is provided to and from the Air Trade Area by Amtrak and Metrolink. Amtrak offers both an east–west route, connecting Ontario and Palm Springs, and a north–south route, connecting San Bernardino and Riverside. Metrolink offers four lines that travel through the Air Trade Area: (1) the 91/Perris Valley Line, connecting central Riverside County to Los Angeles; (2) the Riverside Line, also connecting Riverside County to Los Angeles; (3) the Inland Empire/Orange County Line, traveling through San Bernardino and Riverside Counties to Orange and San Diego Counties; and (4) the San Bernardino Line, which travels directly from downtown San Bernardino to Los Angeles.

¹⁹ Department of Commerce, International Trade Administration, "California Exports, Jobs, & Foreign Investment," February 2018.

²⁰ Department of Commerce, International Trade Administration trade statistics, www.trade.gov, accessed March 2019.

²¹ Jonathan Lansner, "Inland Empire home to hottest U.S. job market in last 5 years (L.A.-O.C.? No. 26)," *The Press-Enterprise*, October 11, 2018.

²² Brian Whitehead, "FedEx expands air cargo operations in San Bernardino under new 10-year agreement with airport," *The Sun*, July 25, 2018.

PALM SPRINGS INTERNATIONAL AIRPORT

- Public transit in the Air Trade Area is primarily provided by the Riverside Transit Agency (Riverside County) and Omnitrans (San Bernardino County). The two agencies provide a variety of bus transit services and commuting lines throughout western Riverside County and the San Bernardino Valley, as well as a connection to regional transit facilities. In addition, the SunLine Transit Agency provides routes throughout Coachella Valley and a connection to the City of Riverside.
- Greyhound Bus Lines provides regularly scheduled bus service to and from the Air Trade Area and serves both San Bernardino and Riverside Counties, connecting the Air Trade Area to Los Angeles, San Diego, Phoenix, and Las Vegas.

Construction

Construction employment in the Air Trade Area increased at a CAGR of 1.4 percent between 2008 and 2018, compared to an increase of 0.1 percent for the nation over the same period. In 2018, the construction sector accounted for approximately 106,000 employees in the Air Trade Area, which accounted for 7.0 percent of total nonagricultural employment.

A key contributor to the growth of the construction sector is the increase in industrial construction. As of December 2018, 23.1 million square feet of industrial space was under construction in the Air Trade Area. This amounts to 72.7 percent of the industrial space being built in Southern California.²³ A new development located in Perris, called Optimus Logistics Center, touts over one million square feet of warehousing space, providing tenants with the ability to ship goods from the Ports of Los Angeles and Long Beach throughout the western United States.²⁴

Office vacancy rates in the Air Trade Area continue to be some of the highest in Southern California, likely due in part to the area's lack of urban density, while office rents, at an average of \$22.68 per square foot as of the second quarter of 2018, are comparatively lower than other areas in South California.²⁵

Both building permits and housing sales and prices are indirect indicators of employment in the construction sector. As shown in **Table 4-8**, Air Trade Area residential building permits and valuation experienced a similar "bust" and "boom" cycle as was experienced by the United States as a whole over the 2008 to 2018 period. From 2008 until the bottom of the most recent residential real estate building cycle in 2009, the Air Trade Area's residential building permit units decreased at a CAGR of 29.2 percent (compared to a decrease of 35.6 percent for the United States), and building permit valuation decreased at a CAGR of 30.5 percent (compared to a decrease of 32.6 percent for the United States). From 2009 through 2018, the Air Trade Area's residential building permit units increased at a CAGR of 9.7 percent (compared to an increase of 9.5 percent for the United States), and building permit valuation increased at a CAGR of 11.3 percent (compared to an increase of 12.2 percent for the United States).

²³ Inland Empire Economic Partnership, *Inland Empire Quarterly Economic Report*, January 2019.

²⁴ Roger Vincent, "Monster warehouse planned for Inland Empire amid e-commerce boom," *Los Angeles Times*, April 1, 2017.

²⁵ University of California, Riverside, School of Business, Center for Economic Forecasting and Development, *2018 Inland Empire Economic Forecast*, October 2018.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 4-8 RESIDENTIAL BUILDING PERMITS AND VALUATION

YEAR	AIR TRADE AREA		CALIFORNIA		UNITED STATES	
	UNITS	VALUATION	UNITS	VALUATION	UNITS	VALUATION
2008	8,946	\$1,900,458	62,681	\$12,301,095	905,359	\$141,623,457
2009	6,335	\$1,321,216	35,069	\$7,758,484	582,963	\$95,410,298
2010	6,336	\$1,230,710	43,716	\$9,120,591	604,610	\$101,943,061
2011	4,736	\$914,752	45,471	\$9,638,517	624,061	\$105,268,541
2012	5,949	\$1,208,404	58,549	\$12,727,006	829,658	\$140,425,307
2013	9,348	\$1,836,086	80,742	\$18,263,212	990,822	\$177,655,914
2014	10,166	\$2,099,037	83,657	\$18,743,512	1,052,124	\$194,349,701
2015	9,926	\$2,150,630	98,188	\$22,637,174	1,182,582	\$223,611,322
2016	10,921	\$2,447,666	102,350	\$24,045,190	1,206,642	\$237,101,605
2017	14,676	\$3,170,581	114,780	\$27,782,207	1,281,977	\$258,505,419
2018 ¹	14,615	\$3,459,965	117,079	\$28,318,050	1,317,895	\$268,677,648
Compound Annual Growth Rate						
2008–2009	-29.2%	-30.5%	-44.1%	-36.9%	-35.6%	-32.6%
2009–2018	9.7%	11.3%	14.3%	15.5%	9.5%	12.2%

NOTES: Dollar amounts in thousands.

1 Preliminary data.

SOURCE: U.S. Department of Commerce, Bureau of the Census, March 2019.

Manufacturing

Manufacturing employment in the Air Trade Area decreased at a CAGR of 0.5 percent between 2008 and 2018, compared to a decrease of 0.5 percent for the nation over the same period. In 2018, the manufacturing sector accounted for approximately 101,000 employees in the Air Trade Area, representing 6.7 percent of total nonagricultural employment. Manufacturing in the Air Trade Area takes place at several small- to mid-sized facilities.

Financial

Financial, insurance, and real estate services comprise the financial sector. Financial employment in the Air Trade Area decreased at a CAGR of 0.5 percent between 2008 and 2018, compared to an increase of 0.4 percent for the nation over the same period. In 2018, the financial sector accounted for approximately 44,000 employees in the Air Trade Area, which accounted for 2.9 percent of total nonagricultural employment.

The financial sector plays a relatively smaller role in the Air Trade Area's employment base than in the nation overall. No financial sector employers are included in the Air Trade Area's major employers shown in Table 4-6. According to the most recent Federal Deposit Insurance Corporation statistics, the Air Trade Area has 59 commercial banks with 526 offices. In 2018, Bank of America had the largest market share of deposits of any bank in the Air Trade Area²⁶.

Table 4-9 presents total bank deposits for the Air Trade Area, California, and the United States between 2008 and 2018.²⁷ Total bank deposits are an indication of the economic activity of the financial sector. As shown, total bank deposits in the Air Trade Area increased from approximately \$37.4 billion in 2008 to approximately \$51.6 billion in

²⁶ Federal Deposit Insurance Corporation (FDIC), Bank Data & Statistics, www.fdic.gov, accessed March 2019.

²⁷ As depicted in Table 4-9, the 12-month period ends June 30.

PALM SPRINGS INTERNATIONAL AIRPORT

2018. This increase represents a CAGR of 3.3 percent during this period, which was lower than that for California and the nation (CAGRs of 6.2 and 5.8 percent, respectively) during this same period.

TABLE 4-9 TOTAL BANK DEPOSITS

FISCAL YEAR	TOTAL BANK DEPOSITS		
	AIR TRADE AREA	CALIFORNIA	UNITED STATES
Historical			
2008	\$37,423	\$762,773	\$7,025,791
2009	\$37,366	\$834,349	\$7,559,590
2010	\$36,640	\$845,691	\$7,676,878
2011	\$36,651	\$885,006	\$8,249,403
2012	\$36,368	\$953,488	\$8,947,244
2013	\$38,097	\$1,015,821	\$9,433,522
2014	\$39,835	\$1,086,090	\$10,112,724
2015	\$42,570	\$1,161,213	\$10,657,721
2016	\$45,838	\$1,269,490	\$11,280,518
2017	\$49,151	\$1,353,501	\$11,859,860
2018	\$51,632	\$1,397,409	\$12,307,915
Compound Annual Growth Rate			
2008–2018	3.3%	6.2%	5.8%

NOTE: Dollar amounts in millions; FY ending June 30.

SOURCE: Federal Deposit Insurance Corporation (FDIC), *Summary of Deposits Report*, March 2019.

Information

The information sector combines telecommunications service providers, traditional publishing, motion picture and sound recording, broadcasting, software, online services, and data processing. Information employment in the Air Trade Area decreased at a CAGR of 2.7 percent between 2008 and 2018, compared to a decrease of 0.5 percent for the nation over the same period. In 2018, the information sector accounted for approximately 11,000 employees in the Air Trade Area, which accounted for 0.7 percent of total nonagricultural employment. The information sector plays a relatively smaller role in the Air Trade Area's employment base than in the nation overall. No information sector employers are included in the Air Trade Area's major employers shown in Table 4-6.

4.3 ECONOMIC OUTLOOK

4.3.1 SHORT-TERM ECONOMIC OUTLOOK

According to a March 2019 economic outlook prepared by the University of California, Riverside, School of Business, Center for Economic Forecasting and Development, the forecast for the Air Trade Area is for "solid economic growth in 2019, driven in part by sustained but somewhat slower growth nationally. Against this backdrop, the Center would expect to see better numbers in terms of residential real estate activity, but still anticipates housing to remain on solid footing in the short term as economic fundamentals remain intact."²⁸

²⁸ University of California, Riverside, School of Business, Center for Economic Forecasting and Development, "Inland Empire Business Activity Index, Quarter 4 2018," March 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

4.3.2 LONG-TERM ECONOMIC ASSUMPTIONS INCORPORATED IN PASSENGER DEMAND FORECASTS

As described in more detail in Chapter 5, the methodologies used in developing forecasts of enplaned passengers at the Airport included (among other methodologies) statistical linear regression modeling, with local and national socioeconomic and demographic factors as independent variables and enplaned passengers as the dependent variable. Independent variables considered for this analysis included population, employment, personal income (per capita and total), and gross regional/domestic product. For each of these socioeconomic and demographic factors, the regression modeling produced a coefficient that was applied to the projection of the corresponding socioeconomic or demographic factor to provide a forecast of enplaned passengers. **Table 4-10** presents the CY 2018 and CY 2029 figures used in the modeling, as well as the CAGR for each independent variable between CY 2018 and CY 2029. As previously stated, the demand for air transportation at an airport is, to a large degree, dependent upon the demographic and economic characteristics of an airport's air trade area. For the Airport, the vitality of the Air Trade Area's tourism activity and visitor spending are key variables in determining demand for air transportation. The projected growth in the economic indicators in Table 4-10 support the underlying assumptions that drive the airline activity forecasts discussed in Chapter 5.

TABLE 4-10 PROJECTION OF ECONOMIC VARIABLES USED IN PASSENGER DEMAND FORECASTS

VARIABLE	CY 2018E	CY 2029P	CAGR 2018E–2029P
ATA Population	4,680,550	5,622,916	1.7%
U.S. Population	328,910,940	363,960,155	0.9%
ATA Per Capita Personal Income ¹	\$34,556	\$38,771	1.1%
U.S. Per Capita Personal Income ¹	\$46,097	\$52,391	1.2%
ATA Gross Regional Product (GRP) ²	\$145,209	\$186,865	2.3%
U.S. Gross Domestic Product (GDP) ²	\$17,602,878	\$21,378,635	1.8%

NOTES: In this table, ATA refers to the Airport's Air Trade Area.

CY – Calendar Year

CAGR – Compound Annual Growth Rate

2018E – 2019P – 2018 Estimated – 2019 Projected

¹ Figures in 2009 dollars in order to account for inflation, allowing for comparison to historical data.

² Figures displayed in millions of 2009 dollars.

SOURCE: Woods & Poole Economics, Inc., 2018 Complete Economic and Demographic Data Source (CEDDS), April 2018.

4.3.3 CONCLUSIONS

The Air Trade Area population was 4,680,550 in CY 2018, and it is projected to increase to 5,622,916 by CY 2029. This represents a 1.7 percent CAGR for the Air Trade Area, which is higher than California and the United States during the same period (1.0 percent and 0.9 percent, respectively).

Per capita personal income in the Air Trade Area was lower than in the United States between CY 2008 and CY 2018. The Air Trade Area's per capita personal income in CY 2018 (\$34,556) was 25 percent lower than per capita personal income in the United States (\$46,097). Per capita personal income in the Air Trade Area is projected to increase at

PALM SPRINGS INTERNATIONAL AIRPORT

a CAGR of 1.1 percent between CY 2018 and CY 2029, which is comparable to the projected CAGR of 1.2 percent for the United States.²⁹

Between CY 2007 and CY 2017, the Air Trade Area's labor force grew at a CAGR of approximately 1.4 percent; this is higher than the United States during the same period, which grew at a CAGR of 0.5 percent.

In terms of percentages of industry sector shares, CY 2018 employment in the following industry sectors in the Air Trade Area exceeded employment in the United States: construction, trade, transportation/warehousing/utilities, and government.

The data cited in this chapter support the conclusion that the Air Trade Area has a large and diverse economy that can support increased airline travel demand at the Airport through the Projection Period (ending FY 2029).

²⁹ Amounts are in 2009 dollars in order to account for inflation, allowing for comparison to historical data.

5. PASSENGER DEMAND AND AIR SERVICE ANALYSIS

This chapter describes historical aviation and air service activity at the Airport, discusses key factors affecting trends in these areas, and presents forecasts of future air passenger demand.

5.1 AIRLINES SERVING THE AIRPORT

As listed in **Table 5-1**, 10 scheduled passenger air carriers operate at the Airport as of May 2019. In addition to these eight domestic mainline carriers and two foreign carriers, four additional regional carriers provide service as affiliates of or as subsidiaries for Alaska,¹ American, Delta, and United on a contract basis.

TABLE 5-1 CARRIERS SERVING THE AIRPORT

MAINLINE DOMESTIC CARRIERS (8)	FOREIGN CARRIERS (2)	REGIONAL CARRIERS (4)
Alaska Airlines	Air Canada	Compass Air (Delta)
Allegiant Air	WestJet Airlines	Mesa Airlines (American, United)
American Airlines		SkyWest Airlines (Alaska, American, Delta, United)
Delta Air Lines		Horizon Air (Alaska)
Frontier Airlines		
JetBlue Airways		
Sun Country Airlines		
United Airlines		

NOTE: Carriers scheduled in May 2019.

SOURCE: Innovata, May 2019.

Table 5-2 presents a historical overview of scheduled passenger air carrier service at the Airport for the period FY 2009 to FY 2019.

The following are trends and key points concerning the level of historical scheduled passenger air carrier service during this period:

- The Airport has enjoyed a relatively stable and growing scheduled passenger air carrier base during the years shown. American, Delta, United, Alaska, Allegiant, Sun Country, and WestJet have operated at the Airport throughout this period.

¹ Virgin America merged with Alaska; the FAA granted a single operating certificate to Alaska on January 11, 2018. All references to Alaska include Virgin America.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-2 HISTORICAL SCHEDULED PASSENGER AIR CARRIER BASE

AIR CARRIER ¹	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
American Airlines	●	●	●	●	●	●	●	●	●	●	●
Delta Air Lines	●	●	●	●	●	●	●	●	●	●	●
United Airlines	●	●	●	●	●	●	●	●	●	●	●
Alaska Airlines	●	●	●	●	●	●	●	●	●	●	●
Allegiant Air	●	●	●	●	●	●	●	●	●	●	●
Sun Country Airlines	●	●	●	●	●	●	●	●	●	●	●
WestJet Airlines	●	●	●	●	●	●	●	●	●	●	●
Frontier Airlines				●	●	●	●			●	●
Air Canada							●	●	●	●	●
JetBlue Airways								●	●	●	●
Flair Airlines ²											●

NOTES: Fiscal year ending June 30.

¹ Where applicable, includes affiliated, regional, and merged carriers.

² Flair's seasonal service to Edmonton International Airport (YEG) was suspended in February 2019. Whether the airline will continue service at the Airport in FY 2020 is unknown.

SOURCES: City of Palm Springs, February 2019; Innovata, March 2019.

- Frontier initiated service in FY 2012 with service to Denver International Airport (DEN). The airline discontinued service in FY 2015; however, it returned to the market with DEN service in FY 2018 and added service to Chicago O'Hare International Airport (ORD) in FY 2019.
- Air Canada initiated service in FY 2015 with nonstop service to Vancouver International Airport (YVR).² Service to Toronto Pearson International Airport (YYZ) was added in FY 2017, and service to Calgary International Airport (YYC) was added in FY 2019.
- JetBlue initiated service in FY 2016 with nonstop service to John F. Kennedy International Airport (JFK). The airline added service to Boston Logan International Airport (BOS) in FY 2019.
- Flair initiated service in FY 2019 with nonstop service to Edmonton International Airport (YEG), which was suspended in the same year. It is currently unknown whether the airline will reinstate service at the Airport in FY 2020.

² Prior to the period being considered (FY 2009 to FY 2019), Air Canada operated at the Airport, providing nonstop service to Calgary International Airport (YYC). This service was discontinued in FY 2008.

5.2 AIR SERVICE ANALYSIS

5.2.1 HISTORICAL AIRLINE MARKET SHARES

Table 5-3 presents the historical share of enplaned passengers by airline at the Airport between FY 2014 and FY 2018. Alaska, American, and United each enplaned more than 20 percent of total passengers annually during this period. Alaska enplaned its largest percentage of total passengers at the Airport in FY 2017, when it enplaned 25.1 percent of total passengers; the airline enplaned 23.9 percent of total passengers in FY 2018 and enplaned the most passengers out of all the airlines at the Airport in FY 2017 and FY 2018. American enplaned its largest percentage of total passengers at the Airport in FY 2014, when it enplaned 25.8 percent of total passengers; the airline enplaned 21.7 percent of total passengers in FY 2018. United also enplaned its largest percentage of total passengers at the Airport in FY 2014, when it enplaned 23.7 percent of total passengers; the airline enplaned 22.3 percent of total passengers in FY 2018. The top three airlines (Alaska, United, and American) enplaned 67.9 percent of total Airport enplaned passengers in FY 2018.

WestJet ranked as the fourth-largest airline at the Airport in FY 2014 through FY 2018, enplaning 16.8 percent of total passengers in FY 2018. Delta ranked as the fifth-largest airline in FY 2014 through FY 2018, enplaning 6.3 percent of total passengers in FY 2018.

5.2.2 NONSTOP MARKETS

An important airport characteristic is the existence of nonstop airline service to the airport's largest markets, which is a function of air travel demand and airline profitability or supportability. **Table 5-4** presents historical data on the Airport's top 20 domestic O&D markets during FY 2018, as measured by total O&D passengers. The top 20 domestic markets accounted for approximately 75 percent of total O&D passengers at the Airport. As of February 2019, 14 of the top 20 markets had nonstop service from the Airport; 11 of the top 20 domestic O&D markets are medium-haul markets, or markets between 601 to 1,800 miles in distance from the Airport. Nine of the medium-haul markets are served with nonstop service from the Airport. Three of the top 20 markets are short-haul distances, within 600 miles from the Airport, and six of the top 20 markets are long-haul distances over 1,800 miles. As shown in Table 5-4, the top domestic O&D market is Seattle (medium-haul), followed by San Francisco (short-haul). The largest long-haul domestic O&D market is New York, which is ranked fourth overall. The average gross fare across all domestic markets served from the Airport is \$232, which is higher than the national average fare of \$195.³

Table 5-5 presents data on the Airport's scheduled nonstop destination airports during March 2019, the peak month in FY 2019. The table includes the markets served, the average daily number of nonstop departures to each airport, and the airlines providing nonstop service to these airports. As shown, nonstop service is provided to 21 airports (16 domestic and 5 international), with an average of 58 daily departures. Primary O&D markets with a significant number of daily nonstop flights include: San Francisco International Airport (SFO) with 10 average daily departures, Seattle-Tacoma International Airport (SEA) with 7 average daily departures, and Phoenix Sky Harbor International Airport (PHX) with 6 average daily departures. The Airport serves a leisure market and experiences seasonal peaks and dips in activity. During the low month of FY 2019 (July 2018), nonstop service was provided to just 11 airports, with an average of approximately 19 daily departures. Flights to these 11 airports ranged from less than 1 average daily departures to 5 average daily departures. United and Alaska each provided service to three destinations; American and WestJet provided service to two destinations each; and Allegiant and Delta provided service to single destinations. Air Canada, Flair, JetBlue, and Sun Country did not provide service to any destination during the low month of FY 2019.⁴

³ U.S. Department of Transportation, Origin and Destination Survey, March 2019.

⁴ A total of five airlines did not provide 12 months of continuous service in FY 2018. The fifth airline is Frontier, which did not provide service in September and October 2018.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-3 HISTORICAL TOTAL ENPLANED PASSENGERS BY AIRLINE

AIRLINE ¹	2014		2015		2016		2017		2018	
	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
Alaska Airlines ²	201,298	21.7%	233,718	24.2%	235,323	24.5%	258,362	25.1%	265,566	23.9%
United Airlines	220,409	23.7%	199,512	20.6%	199,733	20.8%	214,026	20.8%	248,058	22.3%
American Airlines ³	239,375	25.8%	247,492	25.6%	240,044	25.0%	249,735	24.3%	241,957	21.7%
WestJet Airlines	130,494	14.1%	163,864	17.0%	157,328	16.4%	161,780	15.7%	187,395	16.8%
Delta Air Lines	56,690	6.1%	62,694	6.5%	63,135	6.6%	65,060	6.3%	70,636	6.3%
Allegiant Air	31,151	3.4%	28,864	3.0%	25,314	2.6%	21,818	2.1%	22,230	2.0%
Sun Country Airlines	18,452	2.0%	18,094	1.9%	18,287	1.9%	18,891	1.8%	20,341	1.8%
JetBlue Airways	0	0.0%	0	0.0%	9,755	1.0%	20,694	2.0%	20,068	1.8%
Air Canada	0	0.0%	6,699	0.7%	10,102	1.1%	18,124	1.8%	18,822	1.7%
Frontier Airlines	16,679	1.8%	5,246	0.5%	0	0.0%	0	0.0%	17,838	1.6%
Other ⁴	13,826	1.5%	443	0.0%	437	0.0%	308	0.0%	217	0.0%
Airport Total ⁵	928,374	100.0%	966,626	100.0%	959,458	100.0%	1,028,798	100.0%	1,113,128	100.0%

NOTES: Fiscal year ending June 30.

1 Includes regional/commuter affiliates.

2 US Airways merged with American; the FAA granted a single operating certificate to American on April 8, 2015. All data include US Airways airlines.

3 Virgin America merged with Alaska; the FAA granted a single operating certificate to Alaska on January 11, 2018. All data include Virgin America.

4 Includes airlines with minimal market share or airlines that may not operate at the Airport as of FY 2018.

5 May not sum to total due to rounding.

SOURCE: City of Palm Springs, February 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-4 TOP 20 DOMESTIC ORIGIN AND DESTINATION MARKETS (FISCAL YEAR 2018)

RANK	MARKET	STAGE LENGTH ¹	TOTAL O&D PASSENGERS	AVERAGE GROSS FARE	NONSTOP SERVICE ²
1	Seattle	MH	244,426	\$167	●
2	San Francisco	SH	243,370	\$166	●
3	Portland	MH	122,173	\$161	●
4	New York ³	LH	104,234	\$282	●
5	Chicago ⁴	MH	83,732	\$266	●
6	Minneapolis/St. Paul	MH	78,696	\$228	●
7	Denver	MH	69,487	\$163	●
8	Bellingham	MH	48,803	\$116	●
9	Dallas/Fort Worth ⁵	MH	40,668	\$293	●
10	Phoenix	SH	29,370	\$156	●
11	Washington, D.C. ⁶	LH	28,803	\$342	
12	Boston	LH	27,826	\$305	●
13	Houston ⁷	MH	21,472	\$303	●
14	Salt Lake City	SH	20,940	\$228	●
15	Philadelphia	LH	20,064	\$332	
16	Detroit	LH	19,131	\$315	
17	Atlanta	LH	17,136	\$345	●
18	Spokane	MH	16,482	\$197	
19	Kansas City	MH	12,542	\$272	
20	St. Louis	MH	12,157	\$280	
Total Top 20 Airports⁸			1,261,509		
Other O&D Markets			420,701		
Total O&D Passengers			1,682,210	\$232	

NOTES: O&D – Origin and Destination

1 Short Haul (SH) = 0 to 600 miles; Medium Haul (MH) = 601 to 1,800 miles; Long Haul (LH) = over 1,800 miles

2 Nonstop service as of February 2019.

3 Includes John F. Kennedy International (JFK), LaGuardia (LGA), and Newark Liberty International (EWR).

4 Includes Chicago O'Hare International (ORD) and Chicago Midway International (MDW).

5 Includes Dallas Love Field (DAL) and Dallas Fort Worth International (DFW).

6 Includes Ronald Reagan Washington National (DCA) and Washington Dulles International (IAD).

7 Includes William P. Hobby (HOU) and George Bush Intercontinental (IAH).

8 May not sum to total due to rounding.

SOURCES: U.S. Department of Transportation, Origin and Destination Survey, March 2019; Innovata, March 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-5 NONSTOP MARKETS IN PEAK MONTH

MARKET	AVG DAILY NONSTOPS ¹	NUMBER OF AIRLINES	AIRLINE (OPERATING CARRIER) – AVERAGE DAILY DEPARTURES (AIRPORT)
Atlanta (ATL)	<1	1	Delta Airlines (1x weekly)
Bellingham (BLI)	1	1	Allegiant Air
Boston (BOS)	<1	1	JetBlue Airways (4x weekly)
Calgary (YYC)	4	2	Air Canada (1x daily), WestJet Airlines (3x daily)
Chicago-O'Hare (ORD)	4	3	American Airlines (2x daily), United Airlines (2x daily), Frontier Airlines (2x weekly)
Dallas/Fort Worth (DFW)	3	1	American Airlines
Denver (DEN)	5	2	United Airlines (5x daily), Frontier Airlines (4x weekly)
Edmonton (YEG)	1	1	WestJet Airlines
Houston-Intercontinental (IAH)	3	1	United Airlines
Los Angeles (LAX)	1	1	United Airlines
Minneapolis/St. Paul (MSP)	2	2	Delta Air Lines (1x daily), Sun Country Airlines (1x daily)
New York (JFK)	1	1	JetBlue Airways
Newark (EWR)	1	1	United Airlines
Phoenix (PHX)	6	1	American Airlines
Portland, OR (PDX)	2	2	Alaska Airlines (2x daily), Sun Country Airlines (2x weekly)
Salt Lake City (SLC)	4	1	Delta Air Lines
San Francisco (SFO)	10	3	United Airlines (6x daily), Alaska Airlines (4x daily), Sun Country Airlines (2x weekly)
Seattle (SEA)	7	2	Alaska Airlines (6x daily), Delta Air Lines (1x daily)
Toronto (YYZ)	<1	1	Air Canada (4x weekly)
Vancouver (YVR)	3	2	Air Canada (1x daily), WestJet Airlines (2x daily)
Winnipeg (YWG)	<1	1	WestJet Airlines (2x weekly)
Total²	58		

NOTES:

1 Average daily nonstop service for peak month March 2019.

2 Total does not include airlines with averages of less than once daily nonstops to a destination.

SOURCE: Innovata, March 2019.

5.2.3 AIRLINE TRENDS RELATED TO HISTORICAL TOTAL PASSENGER ACTIVITY AT THE AIRPORT

Table 5-6 and **Exhibit 5-1** present 10 years of historical enplaned passenger activity at the Airport. As shown in Table 5-6, the Airport's historical share of nationwide enplaned passengers has increased over this period from approximately 0.10 percent in FY 2009 to 0.13 percent in FY 2018. The data show that, while passenger activity trends at the Airport have fluctuated, passenger growth at the Airport has often exceeded passenger growth for the nation. For the 10-year historical period, both total and enplaned passengers at the Airport increased at a CAGR of 4.8 percent, compared to a CAGR of 2.4 percent nationwide. Airport passenger activity levels decreased -0.7 percent in FY 2016 due in part to declines in American and WestJet passenger activity; increased approximately 7.2 percent in FY 2017 due to moderate growth across nearly all airlines serving the Airport; and increased approximately 8.2

PALM SPRINGS INTERNATIONAL AIRPORT

percent in FY 2018, due primarily to WestJet and United passenger activity growth and the reintroduction of Frontier service at the Airport, which had been previously discontinued in January 2015.

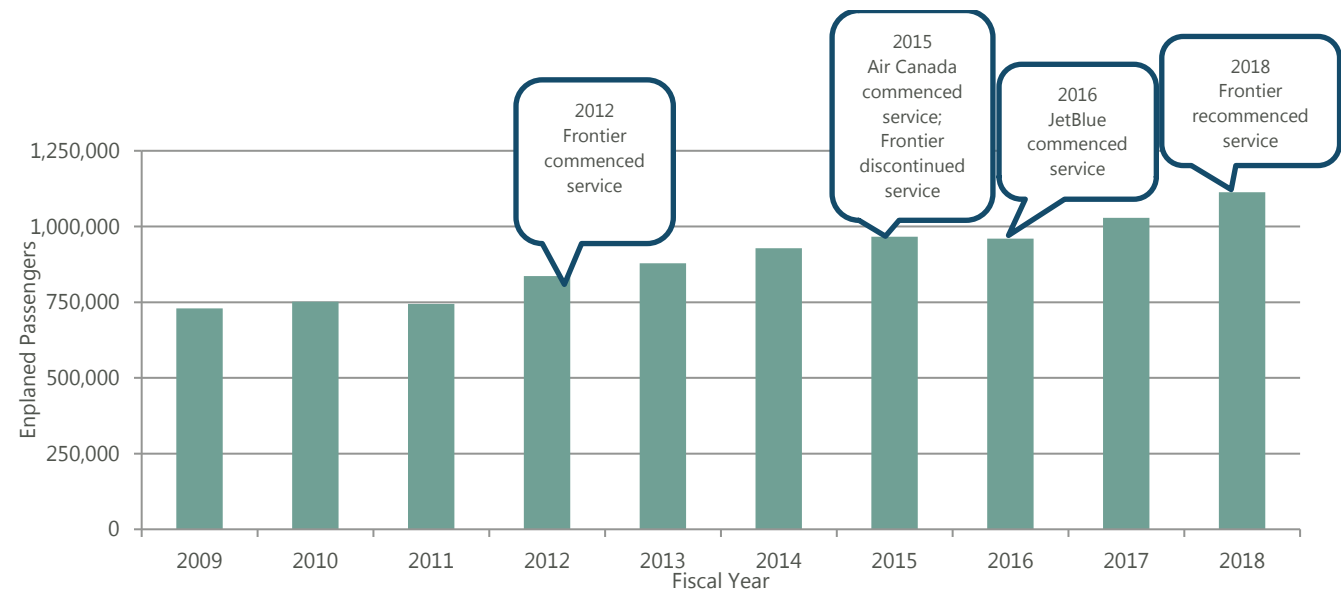
TABLE 5-6 HISTORICAL ENPLANED PASSENGERS

FISCAL YEAR	AIRPORT ENPLANED PASSENGERS	ENPLANED GROWTH	U.S. TOTAL ENPLANEMENTS	U.S. GROWTH	AIRPORT MARKET SHARE
2009	729,162		712,682,737		0.10%
2010	751,722	3.1%	711,490,489	(0.2%)	0.11%
2011	744,843	(0.9%)	731,338,629	2.8%	0.10%
2012	836,787	12.3%	741,294,494	1.4%	0.11%
2013	878,321	5.0%	742,321,018	0.1%	0.12%
2014	928,374	5.7%	755,663,599	1.8%	0.12%
2015	966,626	4.1%	782,140,182	3.5%	0.12%
2016	959,458	(0.7%)	823,410,675	5.3%	0.12%
2017	1,028,798	7.2%	848,040,507	3.0%	0.12%
2018	1,113,128	8.2%	883,281,885	4.2%	0.13%
Compound Annual Growth Rate					
2009–2018	4.8%		2.4%		

NOTE: Fiscal year ending June 30.

SOURCES: City of Palm Springs, February 2019; Federal Aviation Administration, T-100, February 2019.

EXHIBIT 5-1 HISTORICAL ENPLANED PASSENGERS



SOURCE: City of Palm Springs, February 2019.

Immediately preceding this 10-year historical period, the Airport experienced the impacts of the Great Recession. According to the Federal Reserve, the Great Recession began in December 2007 and ended in June 2009 and during this eighteen-month period real gross domestic product (GDP) decreased sharply while the nation’s unemployment

PALM SPRINGS INTERNATIONAL AIRPORT

rate rose to 9.5 percent.⁵ The Great Recession impacted the aviation industry as domestic enplaned passengers decreased 11.6 percent and 5.7 percent respectively in 2008 and 2009 (17.3 percent total). In 2008, enplanements at the Airport totaled 797,651; approximately 0.1 percent lower than in 2007 while 2009 enplanements were 729,162; which represented a decrease of 8.6 percent. The compound annual growth rate for the Airport during the period 2007-2009 was a negative 4.4 percent. Another recession event of a similar magnitude as the Great Recession has not been assumed in this forecast, and may have a material impact on future activity levels.

The FAA classifies the Airport as a small-hub facility based on its percentage of nationwide passenger activity.⁶ For CY 2017, the Airport ranked 87th in the United States with 1.1 million enplaned passengers.⁷

As shown in Table 5-6, the number of enplaned passengers at the Airport increased from approximately 729,000 in FY 2009 to approximately 1,113,000 in FY 2018. The following are specific details concerning passenger activity at the Airport between FY 2009 and FY 2018:

- **FY 2009 – FY 2011.** Passenger activity at the Airport increased 3.1 percent in FY 2010, while seat capacity increased 4.8 percent. Nationwide, enplaned passengers decreased 0.2 percent in the same year as the economic recession continued to negatively affect passenger activity. United increased capacity to Denver International Airport (DEN) and San Francisco International Airport (SFO), and WestJet increased capacity to Edmonton International Airport (YEG). Alaska discontinued seasonal service to San Jose International Airport (SJC) in FY 2010, and it also decreased service to SFO by discontinuing a third daily flight previously flown in the winter months. Passenger activity at the Airport decreased 0.9 percent in FY 2011, while seat capacity decreased 6.9 percent as Alaska decreased service to all destinations it served from the Airport. WestJet commenced seasonal service to Toronto Pearson International Airport (YYZ) in FY 2011.
- **FY 2012.** Passenger activity increased 12.3 percent, to approximately 836,787 enplaned passengers, while seat capacity increased 10.9 percent. In November 2011, Frontier initiated service at the Airport, providing seasonal service (November to May) to DEN. WestJet commenced seasonal service to Winnipeg International Airport (YWG) and increased service to YEG and Calgary International Airport (YYC), and Allegiant increased service to Bellingham International Airport (BLI) and introduced seasonal service to Stockton Metropolitan Airport (SCK). Additionally, United introduced seasonal service to George Bush Intercontinental Airport (IAH) and increased service to SFO, and Alaska reintroduced seasonal service to SJC.
- **FY 2013 – FY 2014.** Passenger activity increased 5.0 percent in FY 2013, while seat capacity increased 2.1 percent. Alaska initiated seasonal once-weekly service to John F. Kennedy International Airport (JFK) in December 2012. Allegiant initiated service to Oakland International Airport (OAK) and Eugene International Airport (EUG) in November 2012. The airline did not continue into FY 2013 the service to SCK that had begun in FY 2012. In FY 2014, passenger activity increased 5.7 percent, while seat capacity increased 6.4 percent. In FY 2014, Allegiant discontinued the OAK and EUG service it had begun the previous year. Delta increased service to Minneapolis–St. Paul International Airport (MSP) from a few flights in FY 2013 to daily flights from December 2013 through May 2014.

⁵ Rich, Robert, "The Great Recession (December 2007-June 2009)," https://www.federalreservehistory.org/essays/great_recession_of_200709, written as of November 22, 2013, accessed May 5, 2019.

⁶ As defined by the FAA, a small-hub primary airport enplanes between 0.05 percent and 0.25 percent of nationwide enplanements during a calendar year. This percentage range of nationwide enplanements equates to 428,606 to 2,143,033 enplaned passengers in CY 2017, the latest calendar year for determining airport size. The Airport enplaned 1,055,970 people in CY 2017.

⁷ Federal Aviation Administration, *CY 2017 Passenger Boarding Data*, November 2018.

PALM SPRINGS INTERNATIONAL AIRPORT

- **FY 2015.** Passenger activity increased 4.1 percent, while seat capacity increased 5.7 percent. Air Canada introduced service at the Airport beginning in December 2014, with seasonal service to Vancouver International Airport (YVR) at frequencies between once weekly and once daily, depending on the month. WestJet increased its service to YVR and YYC with frequencies of up to twice daily to YVR and three times daily to YYC during the winter months. Delta introduced seasonal service to Seattle-Tacoma International Airport (SEA) daily from December 2014 through April 2015. Frontier ceased to operate at the Airport when it discontinued service to DEN in January 2015. Alaska upgauged Portland International Airport (PDX) and SEA service, using more 181-seat Boeing 737-900 aircraft. Alaska's seasonal service to Sacramento International Airport (SMF) was not continued in FY 2015. United significantly cut service to Los Angeles International Airport (LAX), which earlier in the year had a frequency of up to five times daily, but as of May 2015 it was decreased to just once daily. The airline also discontinued service to McCarran International Airport (LAS) in September 2014.
- **FY 2016.** Passenger activity decreased 0.7 percent, while seat capacity increased 0.8 percent. JetBlue introduced service at the Airport, operating approximately five times weekly seasonal service to JFK beginning in January 2016. United decreased frequency but increased total seat capacity to DEN in FY 2016, by replacing 50- and 70-seat regional jets with larger aircraft.
- **FY 2017.** Passenger activity increased 7.2 percent, while seat capacity increased 5.8 percent. Air Canada introduced seasonal service to YYZ in December 2016. Alaska upgauged its average aircraft size serving PDX, SEA, and SFO, replacing 144-seat Boeing 737-400 and 124-seat Boeing 737-700 aircraft with 181-seat Boeing 737-900 aircraft. United increased the number of months it provided once daily Chicago O'Hare International Airport (ORD) service from three to six. JetBlue increased frequency to JFK by providing once daily service between November 2016 and May 2017.
- **FY 2018.** Passenger activity increased 8.2 percent, while seat capacity increased 10.0 percent. American decreased frequency to Phoenix Sky Harbor International Airport (PHX) from seven to five daily flights; however, it maintained seat capacity by upgauging to 70- and 78-seat regional jets from 50-seat regional jets. Frontier reinitiated service to the Airport in November 2017 with seasonal service to DEN, offering an average of four weekly trips to this market. United increased flights by 8.1 percent while increasing seat capacity by 27.7 percent by upgauging to larger aircraft from 50-seat regional jets on its approximately four-times-daily flights to SFO. The airline also increased frequency to DEN, going from between two and four daily flights in FY 2017 to between two and five daily flights in FY 2018, depending on the month.
- **FYTD 2019.** Through the first ten months of FY 2019, passenger activity increased 14.9 percent, while seat capacity increased 18.6 percent. United initiated seasonal service to Newark International Airport (EWR) in December 2018 and increased seat capacity to DEN, George Bush Intercontinental Airport (IAH), Los Angeles International Airport (LAX), and ORD. Air Canada initiated seasonal service to YYC in October 2018; Sun Country initiated seasonal service to PDX and SFO in November 2018; Frontier initiated seasonal service to ORD in December 2018; Delta initiated seasonal service to Hartsfield-Jackson Atlanta International Airport (ATL) in December 2018; and JetBlue initiated seasonal service to Boston Logan International Airport (BOS) in February 2019. Additionally, Flair introduced service at the Airport in December 2018 with nonstop service to YEG; however, the airline suspended service at the Airport in February 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

5.2.4 AIRCRAFT OPERATIONS

Table 5-7 presents the number of aircraft operations (takeoffs and landings) at the Airport by major user groups between FY 2014 and FY 2018. Air carrier operations⁸ at the Airport increased from 13,143 in FY 2014 to 19,913 in FY 2018, representing a CAGR of 10.9 percent. American and United's transition from 30- and 50-seat regional jets to larger aircraft during this period have resulted in increased air carrier activity and a corresponding decrease in air taxi activity (as noted in Table 5-7, aircraft designed to have a seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation are classified as air taxi aircraft by the FAA). These increases can also be partially attributed to Alaska increasing aircraft size, the expanding service of WestJet, and the introduction of service by Frontier, Air Canada, and JetBlue. The air taxi activity levels between FY 2014 and FY 2018 decreased at an annual rate of 14.6 percent. Double-digit declines in air taxi operations began in FY 2015 and continued through FY 2018 as American and United replaced some 50-seat regional jets with 70-seat regional jets and even larger aircraft to many of their destinations.

TABLE 5-7 HISTORICAL AIRCRAFT OPERATIONS

FISCAL YEAR	AIR CARRIER ¹	AIR TAXI ²	GENERAL AVIATION	MILITARY	TOTAL	GROWTH
2014	13,143	19,614	18,616	1,620	52,993	
2015	14,517	17,208	19,463	1,534	52,722	(0.5%)
2016	14,938	14,678	18,308	1,904	49,828	(5.5%)
2017	16,967	13,136	17,948	1,661	49,712	(0.2%)
2018	19,913	10,457	18,853	1,528	50,751	2.1%
Compound Annual Growth Rate						
2014–2018	10.9%	(14.6%)	0.3%	(1.5%)	(1.1%)	

NOTES: Fiscal year ending June 30.

1 This represents aircraft with seating capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds carrying passengers or cargo for hire or compensation. Figures include passenger and all-cargo activity. Regional jets operate in both air carrier and air taxi categories.

2 This represents aircraft designed to have a seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation. Figures include passenger and all-cargo activity. Regional jets operate in both air carrier and air taxi categories.

SOURCE: City of Palm Springs, February 2019.

General aviation operations increased from 18,616 in FY 2014 to 18,853 in FY 2018, at a CAGR of 0.3 percent. Military operations decreased from 1,620 in FY 2014 to 1,528 in FY 2018. Overall, total operations at the Airport decreased each year between FY 2014 and FY 2018, from 52,993 in FY 2014 to 50,751 in FY 2018, at a CAGR of negative 1.1 percent.

5.2.5 LANDED WEIGHT

Table 5-8 presents the shares of landed weight for the passenger airlines serving the Airport from FY 2014 through FY 2018. Landed weight shares by airline primarily follow the airline's share of enplaned passengers with Alaska and United. Based on landed weight, American is the largest airline at the Airport.

5.3 FACTORS AFFECTING AVIATION DEMAND AT THE AIRPORT

This section discusses the qualitative factors that may influence future aviation activity at the Airport. These factors were considered, either directly or indirectly, in developing the aviation activity forecasts for the Airport.

⁸ Air carrier and air taxi operations included scheduled air carriers and nonscheduled carriers.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-8 HISTORICAL LANDED WEIGHT BY AIRLINE (POUNDS IN THOUSANDS)

AIRLINE ¹	2014		2015		2016		2017		2018	
	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE
Alaska Airlines ²	224,571	21.0%	265,689	24.2%	278,055	24.8%	297,743	25.3%	327,162	25.0%
United Airlines	259,909	24.3%	236,273	21.5%	241,397	21.6%	245,464	20.9%	305,868	23.3%
American Airlines ³	263,095	24.6%	268,036	24.4%	270,049	24.1%	267,748	22.8%	273,754	20.9%
WestJet Airlines	142,041	13.3%	185,218	16.9%	181,766	16.2%	195,252	16.6%	211,912	16.2%
Delta Air Lines	60,584	5.7%	69,791	6.4%	72,245	6.4%	72,342	6.2%	74,949	5.7%
Sun Country Airlines	38,554	3.6%	24,108	2.2%	24,756	2.2%	25,547	2.2%	27,630	2.1%
Air Canada	0	0.0%	8,877	0.8%	12,912	1.2%	25,781	2.2%	24,727	1.9%
Allegiant Air	31,966	3.0%	30,771	2.8%	27,449	2.5%	22,060	1.9%	22,996	1.8%
JetBlue Airways	0	0.0%	0	0.0%	11,092	1.0%	22,924	1.9%	22,388	1.7%
Frontier Airlines	18,688	1.7%	6,043	0.6%	0	0.0%	0	0.0%	18,527	1.4%
Other ⁴	29,702	2.8%	2,645	0.2%	395	0.0%	978	0.1%	679	0.1%
Total ⁵	1,069,111	100.0%	1,097,450	100.0%	1,120,116	100.0%	1,175,840	100.0%	1,310,592	100.0%

NOTES: Fiscal year ending June 30.

1 Passenger airlines only.

2 Virgin America merged with Alaska; the FAA granted a single operating certificate to Alaska on January 11, 2018. All data include Virgin America.

3 US Airways merged with American; the FAA granted a single-operating certificate to American on April 8, 2015. All data include US Airways airlines.

4 Includes airlines with minimal market share or airlines that may not operate at the Airport as of fiscal year 2018.

5 May not sum to total due to rounding.

SOURCE: City of Palm Springs, February 2019.

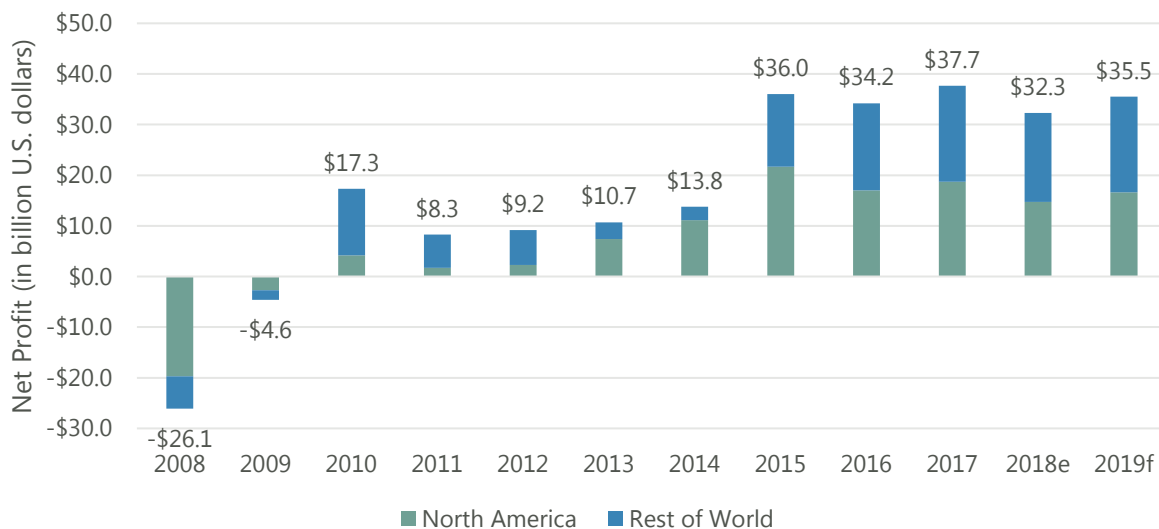
5.3.1 NATIONAL ECONOMY

Historically, trends in airline travel have been closely correlated with national economic trends, most notably changes in gross domestic product. Section 4 reviews the general economic trends, both nationally and locally, that may influence demand for air service over time. Air Trade Area gross regional product is expected to increase 2.6 percent annually for FY 2018 through FY 2029 (the Projection Period), while gross domestic product is expected to increase 1.8 percent annually through the Projection Period. This growth should support generally increasing demand for air service. Actual economic activity may differ from this projection, especially on a year-to-year basis, while demand for air service may be impacted by changes in economic performance.

5.3.2 STATE OF THE AIRLINE INDUSTRY

In the aftermath of the terrorist attacks on September 11, 2001, the U.S. airline industry experienced a material adverse shift in the demand for airline travel, which exacerbated problems for a U.S. airline industry already weakened by a slowing economy and rising labor and fuel costs. The result was 4 years of reported industry operating losses in 2001 through 2004, totaling more than \$22 billion (excluding extraordinary charges and gains). Following these years, the airline industry recovered through 2007, with U.S. airlines posting combined operating profits in all 3 years.⁹ In 2008 and through the first half of 2009, the combination of record-high fuel prices, the Great Recession, and a weak dollar resulted in the worst financial environment for U.S. airlines since the September 11 terrorist attacks. **Exhibit 5-2** shows airline profitability for North America and the rest of the world from CY 2008 to forecast CY 2019.

EXHIBIT 5-2 NET PROFIT OF COMMERCIAL AIRLINES WORLDWIDE (CY 2008 – CY 2019)



NOTES: e = estimate; f = forecast

CY – Calendar Year

SOURCES: International Air Transport Association, Airline Industry Economic Performance Data Tables, December 2015; International Air Transport Association, Airline Industry Economic Performance Data Tables, December 2018.

In 2008, many domestic network airlines announced significant capacity reductions; increased fuel surcharges, airfares, and ancillary fees; and instituted other measures to address the challenges associated with a weakened

⁹ Airlines for America, *2009 Economic Report*, August 2009.

PALM SPRINGS INTERNATIONAL AIRPORT

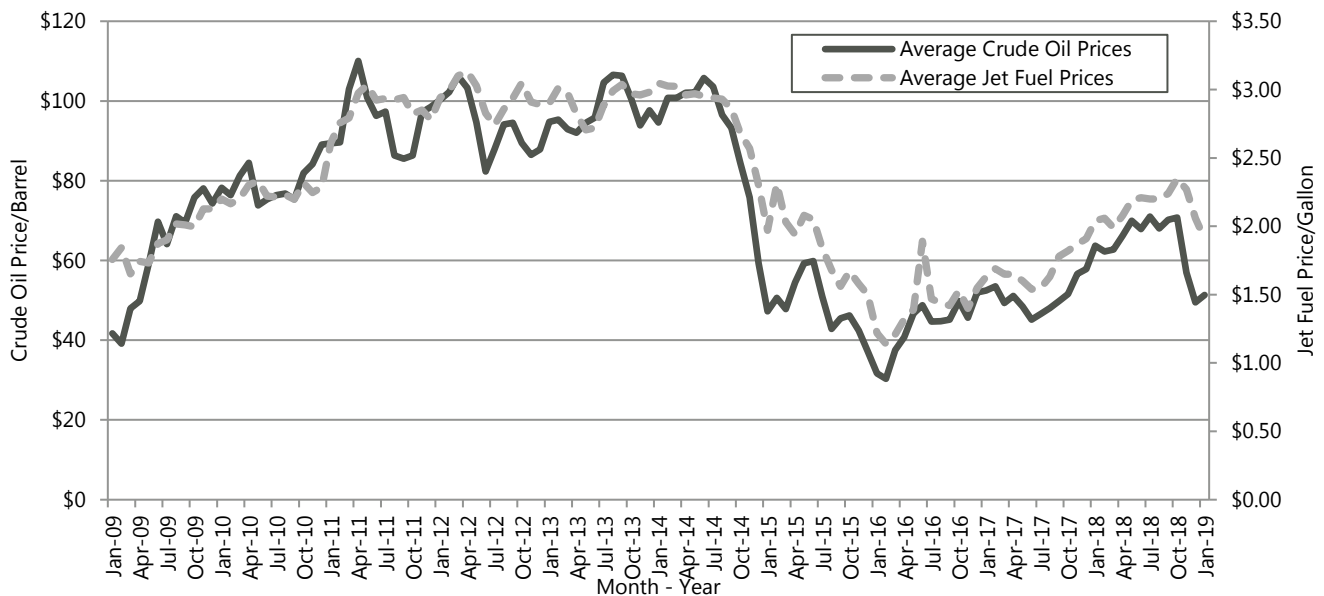
revenue environment. After a \$4.6 billion loss in 2009, the global airline industry recovered and remained profitable, with annual net profits ranging from \$8.3 billion (2011) to \$17.3 billion (2010). Globally, passenger traffic increased 6.3 percent from 2013 to 2014. After a \$13.8 billion net profit for the global airline industry in 2014, the industry recorded \$36.0 billion in profits in 2015. North American airline net profits reached \$21.7 billion in 2015, compared with \$11.1 billion in 2014. Declining fuel prices since 2014 have enabled greater capacity growth and have sustained profitability. North American airlines grew capacity 4.7 percent in 2016, a further 3.8 percent in 2017, and an estimated 4.8 percent in 2018. North American airline net profit reached \$18.7 billion in 2017 and an estimated \$14.7 billion in 2018; the International Air Transport Association projects it will grow to \$16.6 billion in 2019.¹⁰

5.3.3 COST OF AVIATION FUEL

As of the third quarter of 2018, jet fuel accounted for 20.9 percent of total airline operating costs, second only to labor.¹¹ As recently as 2014, jet fuel represented an airline’s largest operating expense, and the cost of fuel is one of the most significant and volatile factors affecting the airline industry today.

Exhibit 5-3 depicts monthly average jet fuel and crude oil prices from January 2009 through January 2019. The average price of jet fuel increased from \$1.76 per gallon in January 2009 to maintain levels above \$2.50 between January 2011 and November 2014, peaking at \$3.13 in April 2012. Prices then declined, reaching a low of \$1.14 per gallon in February 2016. From there the average price of jet fuel grew to \$2.27 per gallon in November 2018. The average price of jet fuel in January 2019 was \$1.91 per gallon, well below the previously sustained high prices of 2011 through 2014.

EXHIBIT 5-3 HISTORICAL MONTHLY AVERAGES OF JET FUEL AND CRUDE OIL PRICES



SOURCES: U.S. Department of Transportation, Bureau of Transportation Statistics, March 2019; U.S. Department of Energy, Energy Information Administration, March 2019.

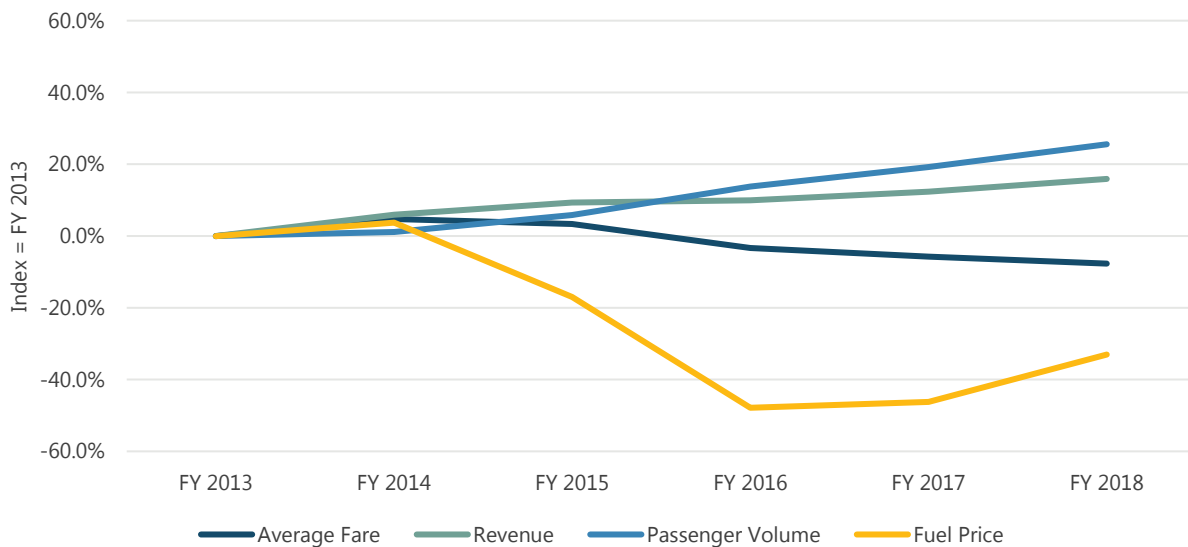
¹⁰ International Air Transport Association, *Airline Industry Economic Performance*, December 2018.

¹¹ Airlines for America, *Passenger Airline Cost Index (PACI)*, <http://airlines.org/dataset/a4a-quarterly-passenger-airline-cost-index-u-s-passenger-airlines/> (accessed March 1, 2018).

PALM SPRINGS INTERNATIONAL AIRPORT

Lower fuel prices since 2014 have enabled airlines to offer lower average fares and to generate additional revenues through higher passenger volumes. **Exhibit 5-4** shows the change in fuel cost, domestic passenger volumes, domestic passenger revenues, and average domestic fares over the past 5 years. Lower costs have allowed airlines to carry passengers paying lower fares, while still contributing towards airline profitability and financial goals.

EXHIBIT 5-4 HISTORICAL DOMESTIC PASSENGERS, REVENUES, FARES, AND COST OF JET FUEL



NOTE: FY – Fiscal Year

SOURCES: U.S. Department of Transportation, Bureau of Transportation Statistics, March 2019; U.S. Department of Transportation, DB1B Survey, March 2019.

If jet fuel prices continue to increase over time at a rate greater than projected, then this trend may be reversed as airlines could reduce capacity and could raise fares to offset higher costs through higher revenues.

5.3.4 THREAT OF TERRORISM AND GEOPOLITICAL ISSUES

Acts of terrorism against either domestic or global aviation have remained a risk to achieving the results of activity forecasts. Tighter security measures have restored the public's confidence in the integrity of U.S. and world aviation security systems. Any terrorist incident aimed at aviation could have an immediate and significant negative effect on the demand for aviation services.

5.3.5 OTHER AIRPORTS IN THE REGION

In general, an airport's potential service area is limited by the distance from an airport, and it is further defined by the availability and quality of air service at surrounding airports. Airports evaluated as competitors for this analysis are Los Angeles International Airport (LAX) and Ontario International Airport (ONT).

ONT is the closest airport to PSP that also offers year-round commercial service. It is approximately 70 miles away to the northwest, an approximately 1-hour and 15-minute drive from PSP. Nine carriers provide an average of 59 daily departures to 13 domestic destinations and 2 international destinations from ONT, as of March 2019. Five domestic and two international markets served at ONT are not served from the Airport. ONT has lower average

PALM SPRINGS INTERNATIONAL AIRPORT

domestic gross fares than PSP, approximately \$184 in Q1 FY 2019, which was 23 percent lower than the average domestic gross fares for PSP during the same period.

PSP is also located within driving distance to a large-hub airport, Los Angeles International Airport (LAX). LAX is located approximately 125 miles west of the Airport along the Southern California coast, an approximately 2-hour and 30-minute drive from PSP (however, drive times between PSP and LAX may vary significantly due to traffic in and around the Los Angeles region). In March 2019, 67 carriers provided an average of 865 daily departures to 89 domestic destinations at LAX. All destinations served by PSP are also served from LAX, except Winnipeg James Armstrong Richardson International Airport (YWG). Average domestic gross fares for Q1 FY 2019¹² to LAX are approximately \$209, 12 percent lower than the average domestic gross fares to PSP during the same period.

Table 5-9 presents a summary of domestic and international destinations served by the Airport compared with LAX and ONT.

TABLE 5-9 AIRPORTS IN THE REGION

MARKET	FY 2018 ENPLANED PASSENGERS ¹	NUMBER OF MARKETS SERVED			AVERAGE DAILY DEPARTURES ⁴	AVERAGE DOMESTIC GROSS FARE ⁵
		DOMESTIC ²	INTERNATIONAL ³	TOTAL		
PSP	1,113,128	16	5	21	62	\$238
LAX	43,319,963	89	84	173	865	\$209
ONT	2,394,277	13	2	15	59	\$184

NOTES: FY – Fiscal Year

- 1 Enplaned passenger data based on 12-month period ending June 30. Data are based on airport records.
- 2 Nonstop service to cities within the United States in March 2019.
- 3 Nonstop service to cities outside the United States in March 2019.
- 4 Average daily departures in March 2019. Average daily departures for PSP varies from Table 5-5 due to average daily departures in Table 5-5 not including those airlines with averages of less than once daily nonstops to a destination.
- 5 Average gross domestic fare for Q1 FY 2019 (most recent data available).

SOURCES: Innovata, March 2019; <http://www.palmspringsca.gov/government/departments/aviation-palm-springs-international-airport-psi>, March 2019; <https://www.flylax.com/>, March 2019; <https://www.flyontario.com/>, March 2019; U.S. Department of Transportation, DB1B Survey, March 2019.

LAX has historically served as the primary airport for passengers travelling to and from the Los Angeles region. Airlines offer significantly more destinations and flights from LAX than they do from either PSP or ONT. PSP and ONT primarily serve passengers traveling to and from the areas immediately surrounding the airports. ONT's accessibility from the Air Trade Area, lower fares, and similar breadth of service may draw passengers from the Air Trade Area that might otherwise use the Airport. The largest carrier operating at ONT is Southwest Airlines, which does not operate from PSP. While the average domestic gross fare at ONT and LAX is lower than that at the Airport by approximately 12 and 23 percent, respectively, it is unlikely that significant numbers of O&D passengers with origins or destinations in the Air Trade Area would choose to fly from ONT or LAX if their destination is already served from PSP, especially if it was served nonstop, given the distance from the Air Trade Area to these other airports.

¹² Q1 FY 2019 data are the most recent data available.

PALM SPRINGS INTERNATIONAL AIRPORT

The Airport has a higher percentage of visiting passengers than do ONT and LAX. In 2018, approximately 69 percent of O&D passengers at the Airport were visitors to the region, while 31 percent were residents of the region.¹³ Comparatively, 49 percent of LAX O&D passengers and 45 percent of ONT O&D passengers were visitors.

5.4 FORECASTS OF PASSENGER DEMAND

5.4.1 FORECAST METHODOLOGY

Forecasts of passenger airline activity were developed considering historical and forecast factors, including passenger volume trends at the Airport and throughout the industry, historical trends and projections of local and national socioeconomic factors, and anticipated trends in the use of the Airport by the airlines serving it. The following subsections describe the methodologies used in forecasting aviation activity at the Airport and present the results of those forecasts.

5.4.2 KEY ASSUMPTIONS

The forecasts are based on several underlying assumptions:

- While year-to-year fluctuations in economic activity are likely, the historical long-term trends of generally expanding economic activity, both nationally and within the Air Trade Area, will continue through the Projection Period, resulting in increased demand for air service.
- Airline passenger demand is expected to continue to be correlated with changes in the U.S. economy, the strength of the Air Trade Area's tourism economy, and socioeconomic factors.
- The Airport will continue its role of primarily serving O&D passengers, with most destinations offered within one stop of the Airport. In most cases, airlines will continue to limit nonstop service from the Airport to their respective connecting hub airports and major cities. Airlines will continue to operate as efficiently as possible, actively managing capacity and seeking to maintain or increase load factors on flights.
- The Airport will maintain its general market share of passenger traffic relative to its nearby competitors within the region.
- This forecast is unconstrained and assumes the City will undertake capital improvement projects at the Airport to provide sufficient landside, airside, and terminal facility capacity to accommodate future passenger demand. These capital improvement projects include the 2019 Project, upgrades to the Inbound Baggage Claim System, and expansion of the Regional Concourse.
- Airline consolidation/mergers that may occur during the Projection Period are less likely to materially impact passenger activity levels at the Airport due to its primarily O&D passenger base, as well as the fact that most potential future mergers would be unlikely to involve carriers providing overlapping service at the Airport. Such combinations are unlikely to result in changes to service offered at the Airport.
- For these analyses, no terrorist incidents that could materially impact U.S. air traffic demand during the Projection Period will occur. Additionally, any airline bankruptcies or industry consolidation during the Projection Period will not result in a major contraction within the aviation industry.
- Many of the factors influencing aviation demand cannot be quantified. As a result, the forecast process should not be viewed as precise, particularly given the major structural changes that have occurred in the aviation

¹³ According to U.S. Department of Transportation Origin and Destination Survey data, for approximately 31 percent of O&D passengers at the Airport in 2018 the Airport was the point of origin and for the remaining 69 percent the Airport was the point of destination.

industry since deregulation. Actual future traffic levels at the Airport may differ from forecasts presented herein because of unforeseen events.

5.4.3 FORECASTS OF PASSENGER DEMAND

Forecasts were developed using a two-step approach: one for the near-term period (FY 2019 to FY 2020) and one for the long-term period (FY 2021 to FY 2029).

5.4.3.1 NEAR-TERM FORECAST (FY 2019)

Near-term forecasts for FY 2019 were developed in March 2019 using historical activity for the first seven months of FY 2019 as well as published airline schedule data for the remainder of FY 2019. Flight segment-level estimates of performance were based on trends of load factors and completion rates applied to published schedules.

Scheduled airline seat capacity at the Airport for FY 2019 is anticipated to increase compared to FY 2018.¹⁴ Seat capacity is scheduled to increase for all airlines serving the Airport compared to FY 2018, with all but Allegiant and WestJet to experience double-digit growth. United, Air Canada, Sun Country, Frontier, Delta, and JetBlue all have initiated mostly seasonal service to new destinations in FY 2019. United was also significantly increasing seat capacity to DEN, IAH, LAX, and ORD through April/May 2019. Load factors are expected to decrease in FY 2019 (approximately 77 percent) compared to FY 2018 (approximately 81 percent), as passenger demand growth trails additional seat capacity growth in the short term. Based on the schedule data and the load factor assumptions utilized in the near-term period, enplaned passengers are forecast to increase 16.4 percent in FY 2019, or approximately 182,376 passengers.

5.4.3.2 LONG-TERM FORECAST (FY 2020 – FY 2029)

The long-term forecast through FY 2029 was developed in March 2019 using socioeconomic regression analysis. Statistical linear regression modeling was employed in this methodology, with local and national socioeconomic and demographic factors as independent variables and domestic O&D passengers as the dependent variable. Independent variables considered for this analysis included population, employment, earnings, income, gross regional product, and per-capita personal income. Relationships were found between certain local and national socioeconomic variables and domestic O&D enplaned passengers. These local and national socioeconomic variables were total employment, earnings, personal income, and gross regional product for the Air Trade Area and total employment, total earnings, total personal income, and gross domestic product for the nation. A combination of these relationships was considered to arrive at a preliminary forecast of domestic O&D enplaned passengers through the Projection Period.

Regression analysis on the key socioeconomic factors produced a range of forecast passengers through FY 2029. When regressed, the local and national socioeconomic variables (total employment, earnings, personal income, and gross regional product for the Air Trade Area and total employment, total earnings, total personal income, and gross domestic product for the nation) were statistically significant and had R-squared results above 90 percent. To arrive at a long-term forecast, the forecasts of all statistically significant variables that generated an R-squared of above 90 percent were averaged to arrive at a FY 2018 to FY 2029 growth rate for domestic O&D enplaned passengers. As shown in **Table 5-10**, of those variables whose regression results were used in the average, the FY 2018 to FY 2029 growth rates were between 3.2 and 4.2 percent.

¹⁴ Innovata, March 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-10 SOCIOECONOMIC VARIABLES INCLUDED IN ANALYSIS

SOCIOECONOMIC VARIABLES	RANGE OF R-SQUARED	RANGE OF FY 2018 – FY 2029 CAGR
Total Employment – Air Trade Area		
Total Earnings – Air Trade Area		
Total Personal Income – Air Trade Area		
Gross Regional Product – Air Trade Area		
Total Employment – U.S.	89 – 92%	3.2 – 4.2%
Total Earnings – U.S.		
Total Personal Income – U.S.		
Gross Domestic Product – U.S.		

NOTES:

FY – Fiscal Year

CAGR – Compound Annual Growth Rate

SOURCES: Federal Aviation Administration, T-100, February 2019 (historical); Woods & Poole Economics, Inc., 2018 Complete Economic and Demographic Data Source (CEDDS), April 2018 (historical and forecast); Ricondo & Associates, Inc., March 2019 (forecast).

It is assumed the Airport will continue to serve O&D passengers. It is not anticipated to become a hub for any carrier, and connecting passengers will comprise a very small portion of total passenger volumes. Therefore, connecting passengers were modeled to remain a consistent percentage of total enplaned passengers over the Projection Period. International O&D passengers, which in FY 2018 comprised approximately 18.5 percent of the Airport’s total passenger base, were modeled to grow proportionately to domestic O&D passengers.

Table 5-11 presents the forecast of passenger activity at the Airport through the Projection Period. Total enplaned passengers are forecast to increase to approximately 1.6 million in FY 2029, reflecting a CAGR of approximately 3.6 percent over the Projection Period. The forecast growth rate reflects the growth rate range identified in the socioeconomic regression analyses adjusted for the anticipated near-term growth.

5.4.4 AIRCRAFT OPERATIONS FORECAST

The passenger airline operations forecast was developed in March 2019 using the passenger forecast and an analysis of completion rates, load factors, and published airline fleet plans. Passenger growth in the long term is forecast to be accommodated by a combination of higher load factors, higher average seats per departure, and growth in operations. **Table 5-12** presents historical and forecast enplaned passengers, passenger airline aircraft operations, load factors, and seats per departure.

Average seats per departure are forecast to increase from approximately 117 in FY 2018 to approximately 123 in FY 2029. Load factors are expected to decline in FY 2019 as newly added seat capacity results in near-term load factor reductions, as passenger growth trails seat capacity growth in the short term. Load factors are forecast to increase in FY 2020 to approximately 81 percent and then remain at 81 percent from FY 2021 through the Projection Period. Aircraft operations are expected to increase approximately 22 percent in FY 2019 due to scheduled new flights. Over the entire Projection Period, passenger airline aircraft operations are forecast to grow from 23,596 in FY 2018 to 32,879 in FY 2029, a CAGR of 3.1 percent.

5.4.5 LANDED WEIGHT FORECASTS

Table 5-13 presents landed-weight forecasts developed in March 2019. Passenger airline landed weight is forecast to increase from approximately 1.3 million thousand-pound units in FY 2018 to approximately 1.9 million thousand-pound units in FY 2029.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-11 ENPLANED PASSENGER FORECAST

FISCAL YEAR	AIRPORT	
	TOTAL ENPLANEMENTS	ANNUAL GROWTH
Historical		
2009	729,162	
2010	751,722	3.1%
2011	744,843	(0.9%)
2012	836,787	12.3%
2013	878,321	5.0%
2014	928,374	5.7%
2015	966,626	4.1%
2016	959,458	(0.7%)
2017	1,028,798	7.2%
2018	1,113,128	8.2%
FYTD 2018 (Jul.–Apr.)	975,794	
FYTD 2019 (Jul.–Apr.)	1,121,183	14.9%
Forecast		
2019	1,295,504	16.4%
2020	1,331,485	2.8%
2021	1,365,891	2.6%
2022	1,401,067	2.6%
2023	1,435,336	2.4%
2024	1,469,424	2.4%
2025	1,503,651	2.3%
2026	1,537,567	2.3%
2027	1,570,845	2.2%
2028	1,603,531	2.1%
2029	1,635,678	2.0%
Compound Annual Growth Rate		
2009–2018	4.8%	
2018–2029	3.6%	
2019–2029	2.4%	

NOTE: Fiscal year ending June 30.

FYTD – Fiscal Year To Date

SOURCES: City of Palm Springs, May 2019 (historical); Ricondo & Associates, Inc., March 2019 (forecast).

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-12 DOMESTIC PASSENGER AIRLINE OPERATIONS FORECAST

FISCAL YEAR	TOTAL ENPLANEMENTS	OPERATIONS	SEATS PER DEPARTURE	LOAD FACTOR
Historical				
2014	928,374	27,140	84	82%
2015	966,626	25,916	92	81%
2016	1,810,542	23,164	104	80%
2017	1,028,798	23,174	109	82%
2018	1,113,128	23,596	117	81%
Forecast				
2019	1,295,504	28,685	117	77%
2020	1,331,485	27,895	118	81%
2021	1,365,891	28,376	119	81%
2022	1,401,067	28,986	120	81%
2023	1,435,336	29,571	120	81%
2024	1,469,424	30,148	121	81%
2025	1,503,651	30,723	121	81%
2026	1,537,567	31,287	122	81%
2027	1,570,845	31,834	122	81%
2028	1,603,531	32,364	123	81%
2029	1,635,678	32,879	123	81%
Compound Annual Growth Rate				
2014–2018	4.6%	-3.4%		
2018–2029	3.6%	3.1%		
2019–2029	2.4%	1.4%		

NOTE: Fiscal year ending June 30.

SOURCES: City of Palm Springs, March 2019 (historical enplanements); U.S. Department of Transportation, T100, March 2019 (historical operations, seats per departure, and load factor); Ricondo & Associates, Inc., March 2019 (forecast).

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 5-13 LANDED-WEIGHT FORECAST

FISCAL YEAR	PASSENGER AIRCRAFT LANDED WEIGHT
Historical	
2014	1,029,040
2015	1,097,450
2016	1,120,116
2017	1,175,840
2018	1,310,592
Forecast	
2019	1,559,590
2020	1,529,573
2021	1,569,098
2022	1,609,507
2023	1,648,874
2024	1,688,033
2025	1,727,352
2026	1,766,314
2027	1,804,543
2028	1,842,092
2029	1,879,022
Compound Annual Growth Rate	
2009–2018	6.2%
2018–2029	3.3%
2019–2029	1.9%

NOTES: In thousand-pound units.

Fiscal year ending June 30.

SOURCES: City of Palm Springs, March 2019 (historical); Ricondo & Associates, Inc., March 2019 (forecast).

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6. FORECAST OF PASSENGER FACILITY CHARGE REVENUE AND DEBT SERVICE COVERAGE

This Chapter evaluates historical PFC Revenue and associated annual expenses, as well as provides a forecast of PFC Revenue, debt service, and other expenses in support of the issuance of the 2019 Bonds to fund the 2019 Project. The following forecasts presented in this chapter are for the Projection Period (FY 2019 to FY 2029): enplaned passengers, eligible passengers for PFC collections, annual PFC Revenues, 2019 Bonds debt service, PFC flow of funds, and 2019 Bonds debt service coverage from PFC Revenues.

6.1 FINANCIAL FRAMEWORK

From an accounting perspective, the City operates the Airport as an independent, standalone enterprise fund separate and distinct from other City enterprises and funds. Annual Airport operating and maintenance expenses are funded solely by revenue generated from Airport concessions, rentals of terminal space, landing fees, non-signatory airline fees, and other charges. Airport capital improvements are funded in part with: (1) revenues generated from rentals, fees, and charges and (2) federal, state, and other forms of grants-in-aid; PFC Revenues and 2019 Bond proceeds. Furthermore, the City has established a separate budget activity, designated as the Special Capital Projects Fund, for purposes of funding capital improvement projects. The Special Capital Projects Fund is established pursuant to the airport use and lease agreement (the Agreement) through an airline landing fee surcharge. Each year, the City evaluates its capital funding requirements and calculates an amount needed for collection through this surcharge. Annual contributions to the Special Capital Projects Fund are capped at \$950,000 per year. Finally, the City has in place a Customer Facility Charge set at the maximum level of \$10.00 per rental car transaction in accordance with California law. Revenues derived from this fee are used by the City to undertake capital improvements for consolidated rental car facilities.

6.2 PASSENGER FACILITY CHARGE REVENUE

The 2019 Bonds are being issued by the City of Palm Springs for the purpose of funding a portion of the 2019 Project.

This section presents a projection of annual PFC Revenue based on the aviation forecasts detailed in Chapter 5, and it analyzes the sufficiency of projected PFC Revenues to cover debt service payments under the 2019 Bonds.

6.2.1 THE AIRPORT'S PASSENGER FACILITY CHARGE PROGRAM AND HISTORICAL PASSENGER FACILITY CHARGE COLLECTIONS AND REVENUES

As noted in Chapter 3, in April 2018 the FAA approved the City's request to impose and use PFC revenue in the amount of \$48,078,877 for the design, construction, and financing of the 2019 Project. Through its April 2018 decision, the FAA further authorized the collection of PFC revenue at the Airport until October 1, 2037, or until total PFC collections and interest earnings equal this amount, whichever occurs first.

Table 6-1 presents historical annual PFC collections for the period FY 2009 to FY 2018. During this period, the Airport collected approximately \$34.6 million in total PFC revenues. In FY 2009, the Airport collected \$2,674,410 in PFC Revenue, while in FY 2018 collections totaled \$4,461,206. Although collections decreased slightly between FY

PALM SPRINGS INTERNATIONAL AIRPORT

2010 to FY 2011, a 10-year overall CAGR of 5.9 percent was achieved as passengers, and associated PFC Revenue, posted year-over-year gains between FY 2012 and FY 2018. As Table 6-1 illustrates, the Airport does not receive the full \$4.50 PFC per enplaned passenger. Pursuant to FAA regulations, the airlines operating at the Airport are allowed to collect a fee of \$0.11 per enplaned passenger to cover administrative expenses associated with the PFC program. Therefore, the actual remittance to the Airport by the airlines is \$4.39 per eligible passenger.

TABLE 6-1 HISTORICAL PASSENGER FACILITY CHARGE REVENUES (FY 2009 – FY 2018)

FISCAL YEAR	ENPLANED PASSENGER	% PFC ELIGIBLE	PFC RATE	AIRLINE COLLECTION FEE	ACTUAL COLLECTION	ANNUAL PFC REVENUE
2009	729,162	83.5%	\$4.50	\$0.11	\$4.39	\$2,674,410
2010	751,722	85.1%	\$4.50	\$0.11	\$4.39	\$2,809,942
2011	744,843	85.2%	\$4.50	\$0.11	\$4.39	\$2,785,021
2012	836,787	88.5%	\$4.50	\$0.11	\$4.39	\$3,252,594
2013	878,321	88.6%	\$4.50	\$0.11	\$4.39	\$3,417,312
2014	928,374	89.1%	\$4.50	\$0.11	\$4.39	\$3,630,223
2015	966,626	88.1%	\$4.50	\$0.11	\$4.39	\$3,736,615
2016	959,458	90.3%	\$4.50	\$0.11	\$4.39	\$3,805,090
2017	1,028,798	89.4%	\$4.50	\$0.11	\$4.39	\$4,038,572
2018	1,113,128	91.3%	\$4.50	\$0.11	\$4.39	\$4,461,206
2009–2018	10 Yr. Annual Avg.	87.9%				
2014–2018	5 Yr. Annual Avg.	89.6%				
2017–2018	2 Yr. Annual Avg.	90.4%				

NOTES: Fiscal years ending June 30.

PFC – Passenger Facility Charge

SOURCE: City of Palm Springs, May 2019.

Furthermore, due to specific exempted classes of passengers, namely, military charter, essential air service, airline nonrevenue crew members, and frequent-flier award ticket holders, the effective enplaned passenger volume eligible for collection is less than 100 percent. As shown in Table 6-1, the level of PFC eligible passengers at the Airport has fluctuated between approximately 83.5 percent and 91.3 percent during the period FY 2009 to FY 2018. The overall 10-year historical annual average of PFC eligible enplaned passengers for the Airport was approximately 87.9 percent, while the most recent 5-year historical annual average for collection was 89.6 percent. Similar to the growth in total collections, the percent of eligible enplaned passengers paying a PFC has also steadily grown, with the most recent 2-year historical average posting an all-time-high eligibility of 90.4 percent.

6.2.2 PROJECTED PASSENGER FACILITY CHARGE COLLECTIONS AND REVENUES

As described in Chapter 5, the enplaned passenger forecast serves as the basis for determining projections of annual PFC Revenues for the Projection Period. It is estimated that enplaned passengers are expected to grow from approximately 1.3 million in FY 2019 to 1.6 million in FY 2029, reflecting a CAGR of 2.4 percent over this period. Correspondingly, annual PFC Revenues are expected to grow at a CAGR of 2.4 percent during the Projection Period, from approximately \$5.0 million in FY 2019 to approximately \$6.3 million in FY 2029, as shown in **Table 6-2**.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 6-2 PROJECTION OF PASSENGER FACILITY CHARGE COLLECTIONS (FY 2019 – FY 2029)

FISCAL YEAR	ENPLANED PASSENGERS	% PFC ELIGIBLE ¹	PFC RATE	AIRLINE COLLECTION FEE	ACTUAL COLLECTION	ANNUAL PFC REVENUE
2019	1,295,504	87.9%	\$4.50	\$0.11	\$4.39	\$5,000,352
2020	1,331,485	87.9%	\$4.50	\$0.11	\$4.39	\$5,139,231
2021	1,365,891	87.9%	\$4.50	\$0.11	\$4.39	\$5,272,031
2022	1,401,067	87.9%	\$4.50	\$0.11	\$4.39	\$5,407,802
2023	1,435,336	87.9%	\$4.50	\$0.11	\$4.39	\$5,540,073
2024	1,469,424	87.9%	\$4.50	\$0.11	\$4.39	\$5,671,643
2025	1,503,651	87.9%	\$4.50	\$0.11	\$4.39	\$5,803,752
2026	1,537,567	87.9%	\$4.50	\$0.11	\$4.39	\$5,934,661
2027	1,570,845	87.9%	\$4.50	\$0.11	\$4.39	\$6,063,107
2028	1,603,531	87.9%	\$4.50	\$0.11	\$4.39	\$6,189,266
2029	1,635,678	87.9%	\$4.50	\$0.11	\$4.39	\$6,313,349

NOTES: Fiscal years ending June 30.

PFC – Passenger Facility Charge

1 Projected percent enplaned passengers eligible for PFCs based on 10-year historical average, shown in Table 6-5.

SOURCE: Ricondo & Associates, Inc., May 2019.

It is assumed that during the Projection Period, the Airport will maintain a \$4.50 per enplaned passenger PFC; the airlines will continue to be eligible to retain \$0.11 of this amount for administrative expenses associated with the collection of the PFC at the Airport; and 87.9 percent of all enplaned passengers will pay a PFC. This rate of collection is consistent with the 10-year historical average and is more conservative and appropriate for calculating future results.

6.2.3 PROJECTED PASSENGER FACILITY CHARGE REVENUE

Table 6-3 presents the projection of total PFC revenue and expected PFC expenditures during the Projection Period. FAA approved PFC expenditures to be funded with PFC revenues at the Airport include PFC eligible debt service associated with the 2019 Bonds as well as 15 Pay-Go projects listed in **Table 6-4**. These projects include:

- Reimbursement of City funds for 11 previously completed PFC eligible projects totaling \$3,522,027 not related to the 2019 Project.
- Three new PFC projects totaling \$294,236 for the non-federal AIP funding share for the acquisition of two (2) Aircraft Rescue and Firefighting (ARFF) Vehicles, the design of upgrades to the Inbound Baggage Claim System, and PFC Program Development and Implementation Assistance; and
- The non-federal match of AIP grants issued by the FAA for the Project; approximately \$721,082.

6.3 THE SERIES 2019 BOND DEBT SERVICE

A portion of the proceeds from the 2019 Bonds will be used to fund the 2019 Project, in part, as described in Chapter 3. The 2019 Project is expected to cost \$35,290,700, of which \$22,612,570 is assumed to be funded with proceeds from the 2019 Bonds.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 6-3 PROJECTED PASSENGER FACILITY CHARGE REVENUE

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Calculation of PFC Revenues										
Total Enplaned Passengers	1,331,485	1,365,891	1,401,067	1,435,336	1,469,424	1,503,651	1,537,567	1,570,845	1,603,531	1,635,678
Annual Percent Enplaned Passengers Collected	87.9%	87.9%	87.9%	87.9%	87.9%	87.9%	87.9%	87.9%	87.9%	87.9%
PFC Eligible Enplaned Passengers	1,193,492	1,224,333	1,255,863	1,286,580	1,317,135	1,347,815	1,378,216	1,408,045	1,437,344	1,466,159
PFC Rate	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
Airline Collection Fee	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11
Net PFC Rate Collected	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39	\$4.39
Total PFC Revenue	\$5,139,231	\$5,272,031	\$5,407,802	\$5,540,073	\$5,671,643	\$5,803,752	\$5,934,661	\$6,063,107	\$6,189,266	\$6,313,349
PFC Eligible Expenditures										
Reimbursed Capital Expenditures (Pay-Go)	\$3,000,000	\$1,537,345	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PFC Eligible Debt Service ¹	\$2,501,281	\$2,504,500	\$2,501,250	\$2,504,500	\$2,503,750	\$2,504,000	\$2,500,000	\$2,501,750	\$2,503,750	\$2,500,750
Total PFC Eligible Expenditures	\$5,501,281	\$4,041,845	\$2,501,250	\$2,504,500	\$2,503,750	\$2,504,000	\$2,500,000	\$2,501,750	\$2,503,750	\$2,500,750
Net Budgeted PFC Revenue										
Projected Net Annual PFC Revenues	-\$362,050	\$1,230,186	\$2,906,552	\$3,035,573	\$3,167,893	\$3,299,752	\$3,434,661	\$3,561,357	\$3,685,516	\$3,812,599
PFC Account										
Future Capital Account Ending Balance	\$3,921,852	\$5,152,039	\$8,058,590	\$11,094,163	\$14,262,056	\$17,561,808	\$20,996,470	\$24,557,827	\$28,243,343	\$32,055,942

NOTES:

May not sum to total due to rounding.

PFC – Passenger Facility Charge

AIP – Airport Improvement Program

¹ PFC Eligible Debt Service provided by Harrell & Company Advisors, LLC, June 2019. Estimated, subject to change based on final pricing.

SOURCE: Ricondo & Associates, Inc., June 2019.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 6-4 PASSENGER FACILITY CHARGE PAY-GO PROJECTS

PROJECT TYPE	PROJECT TITLE	APPROVED PFC PAY-GO FUNDING
Reimbursement	Construct Runway 13L-31R Rehabilitation	\$97,434
Reimbursement	Construct the Rehabilitation of Connecting Taxiways	\$82,999
Reimbursement	Construct Terminal Building Improvements	\$145,723
Reimbursement	Perimeter Fence Rehabilitation	\$169,887
Reimbursement	Install Ground Radar System	\$91,494
Reimbursement	Design and Construct Terminal Apron Rehabilitation	\$1,175,075
Reimbursement	Design and Construct Taxiway G Rehabilitation	\$6,946
Reimbursement	Design and Construct Runway 13R-31L Rehabilitation	\$1,148,185
Reimbursement	Design and Install Flight Informational Display System (FIDS) and Paging Upgrade	\$148,147
Reimbursement	Design and Construct Security Access Control System Upgrade	\$245,526
Reimbursement	Design and Construct Airfield Lighting Upgrade	\$210,611
Subtotal Reimbursements		\$3,522,027
New	Acquire Replacement ARFF Vehicles (2)	\$191,470
New	Design Upgrade to Inbound Baggage Claim System	\$42,030
New	PFC Development and Implementation Assistance	\$60,736
Subtotal New		\$294,236
City Match	Non-Federal Match of AIP Grants Issued by FAA for the Project	\$721,082
Total PFC Pay-Go Funding		\$4,537,345

NOTES:

May not sum to total due to rounding.

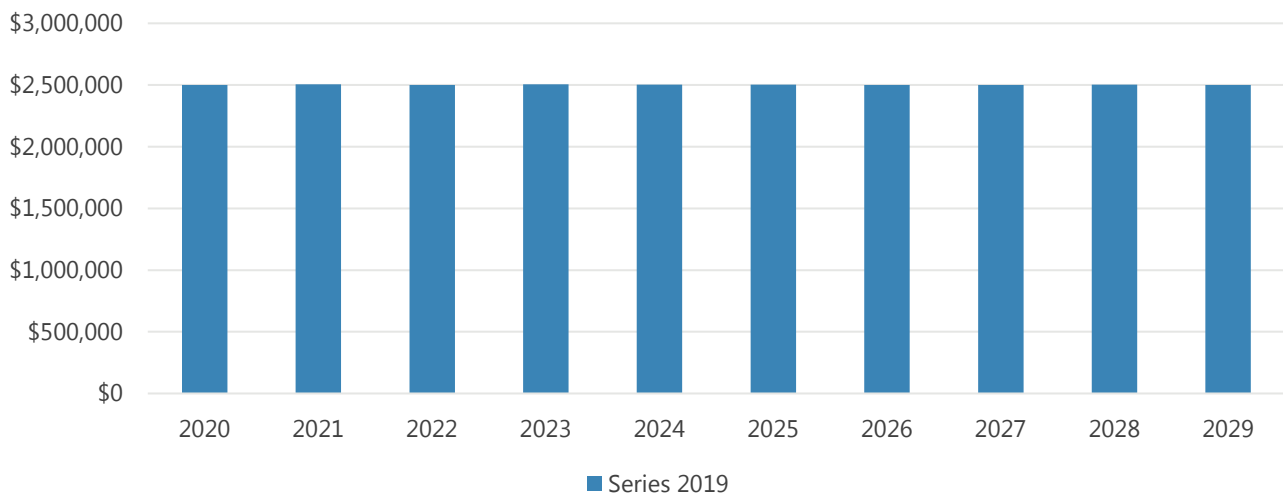
PFC – Passenger Facility Charge

ARFF – Aircraft Rescue and Firefighting

SOURCE: FAA, Federal Agency Decision, PFC Application 17-02-C-00-PSP, November 30, 2017,

As shown on **Exhibit 6-1**, the 2019 Bond annual debt service is estimated to be approximately \$2.5 million during the Projection Period. Based on the current and projected rate of annual PFC collections, it is anticipated that sufficient PFC revenue will be collected by FY 2037 to fund all anticipated debt service resulting from the 2019 Bonds.

EXHIBIT 6-1 DEBT SERVICE



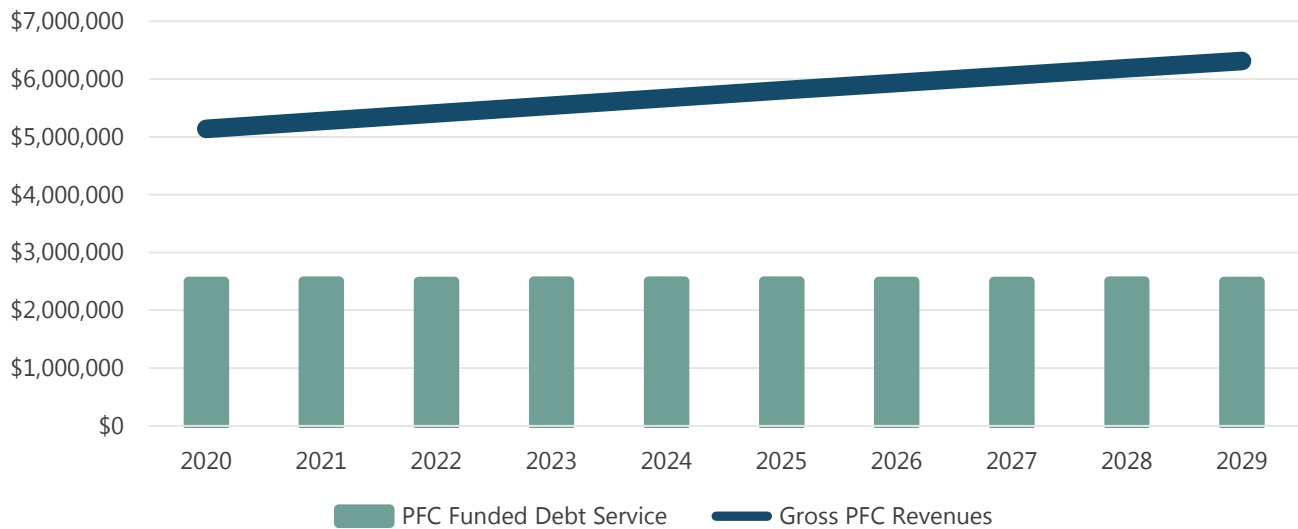
SOURCES: Harrell & Company Advisors, LLC, June 2019. Estimated and subject to change based on final pricing; Ricondo & Associates, Inc., June 2019.

6.4 FINANCIAL PERFORMANCE AND DEBT SERVICE COVERAGE

Table 6-5 presents the projection of the annual debt service coverage ratio pursuant to the Indenture. PFC Revenues divided by annual debt service requirements results in a debt service coverage ratio ranging from approximately 2.05x to 2.52x throughout the Projection Period.

Projected Gross PFC Revenues are expected to be sufficient to cover Total PFC Funded Debt Service at the current PFC collection level, as shown on **Exhibit 6-2**.

EXHIBIT 6-2 PROJECTED PASSENGER FACILITY CHARGE REVENUE



NOTE: PFC – Passenger Facility Charge

SOURCES: Debt Service provided by Harrell & Company Advisors, LLC, June 2019. Estimated, subject to change based on final pricing.

PALM SPRINGS INTERNATIONAL AIRPORT

TABLE 6-5 DEBT SERVICE COVERAGE

	PROJECTED									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
<i>PFC Revenues for Debt Service Coverage</i>										
Total PFC Revenues	\$5,139,231	\$5,272,031	\$5,407,802	\$5,540,073	\$5,671,643	\$5,803,752	\$5,934,661	\$6,063,107	\$6,189,266	\$6,313,349
<i>PFC Funded Debt Service</i>										
Series 2019 ¹	\$2,501,281	\$2,504,500	\$2,501,250	\$2,504,500	\$2,503,750	\$2,504,000	\$2,500,000	\$2,501,750	\$2,503,750	\$2,500,750
Total PFC Funded Debt Service	\$2,501,281	\$2,504,500	\$2,501,250	\$2,504,500	\$2,503,750	\$2,504,000	\$2,500,000	\$2,501,750	\$2,503,750	\$2,500,750
<i>Debt Service Rate Covenant</i>										
Debt Service Coverage	2.05x	2.11x	2.16x	2.21x	2.27x	2.32x	2.37x	2.42x	2.47x	2.52x
<i>Total Resources to Debt Service Coverage</i>										
Total Resources	\$5,139,231	\$5,272,031	\$5,407,802	\$5,540,073	\$5,671,643	\$5,803,752	\$5,934,661	\$6,063,107	\$6,189,266	\$6,313,349
<i>Total Resources to Debt Service Coverage</i>										
Total Resources to Debt Service Coverage Rate	2.05x	2.11x	2.16x	2.21x	2.27x	2.32x	2.37x	2.42x	2.47x	2.52x

NOTES:

1 PFC Eligible Debt Service provided by Harrell & Company Advisors, LLC, June 2019. Estimated, subject to change based on final pricing.

SOURCE: Ricondo & Associates, Inc., June 2019.

6.5 ASSUMPTIONS UNDERLYING THE FINANCIAL PROJECTIONS

The techniques and methodologies used in preparing this financial analysis are consistent with industry practices for similar studies in connection with airport PFC bond sales. While Ricondo believes the approach and assumptions used are reasonable, some assumptions regarding future trends and events presented in this Report, including the implementation schedule and enplanement forecasts, may not materialize. Achievement of the projections presented in this Report, therefore, is dependent upon the occurrence of future events, which cannot be assured, and the variations may be material.

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APPENDIX C
CITY AUDITED FINANCIAL STATEMENTS

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COMPREHENSIVE ANNUAL FINANCIAL REPORT



FISCAL YEAR ENDED JUNE 30, 2018

CITY OF PALM SPRINGS, CALIFORNIA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Prepared By:
Finance Department

Marla L. Pendleton, CPA
Interim Director of Finance

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CITY OF PALM SPRINGS
FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page(s)</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	i
List of Principal Officials	ix
Organization Chart	x
Certificate of Achievement for Excellence in Financial Reporting	xi
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	19
Statement of Activities.....	20
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position.....	25
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Net Position - Proprietary Funds	29
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds.....	30
Statement of Cash Flows - Proprietary Funds	31
Statement of Net Position - Fiduciary Funds	32
Statement of Changes in Net Position – Fiduciary Funds	33
Notes to Financial Statements.....	35

CITY OF PALM SPRINGS
FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page(s)</u>
Required Supplementary Information	
Pension Plans	
Miscellaneous Plan - Agent Multiple-Employer Plan	
Schedule of Changes in Net Pension Liability and Related Ratios	86
Schedule of Plan Contributions	87
Safety Plan - Agent Multiple-Employer Plan	
Schedule of Changes in Net Pension Liability and Related Ratios	88
Schedule of Plan Contributions	89
OPEB Plan	
Other Post-Employment Health Care Benefits	
Schedule of Changes in OPEB Liability and Related Ratios	90
Budgetary Comparison Schedules:	
Budgetary Comparison Schedule – General Fund	91
Budgetary Comparison Schedule – Housing	92
Notes to Required Supplemental Information	93
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds:	
Descriptions of Nonmajor Governmental Funds	95
Combining Balance Sheet	98
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	106
Budgetary Comparison Schedules – Special Revenue Funds:	
Forfeiture	114
Safety Augmentation	115
Special Development	116
CSA 152	117
Recycling AB 929	118
Villagefest	119
Parking	120
Gas Tax	121
Measure A Improvements	122
Drainage Construction	123
Community Development Block Grant	124
Master Lease	125
Air Quality Management	126
Public Arts	127
Library	128

CITY OF PALM SPRINGS
FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page(s)</u>
Combining and Individual Fund Statements and Schedules (Continued)	
Budgetary Comparison Schedules – Special Revenue Funds (Continued)	
Quimby Act Fees.....	129
Special Projects	130
CFD Public Safety #1.....	131
Park Maintenance District	132
Emergency Response.....	133
Sustainability	134
Special Grants.....	135
Small Hotel TBID.....	136
SB1-RMRA.....	137
Budgetary Comparison Schedules – Capital Project Funds:	
Capital Projects	138
Parking Projects	139
Measure J	140
Budgetary Comparison Schedules – Debt Service Funds:	
General Debt Service.....	141
Special Assessments.....	142
Internal Service Funds:	
Description of Internal Service Funds	143
Combining Statement of Net Position	144
Combining Statement of Revenues, Expenses and Changes in Net Position	146
Combining Statement of Cash Flows.....	148
Fiduciary Funds:	
Description of Fiduciary Funds	151
Statement of Changes in Assets and Liabilities	
All Agency Funds.....	152

CITY OF PALM SPRINGS
FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

Page(s)

STATISTICAL SECTION

Table of Contents	155
Net Position by Component	156
Changes in Net Position	157
Fund Balances of Governmental Funds	159
Changes in Fund Balances of Governmental Funds	160
Assessed Value and Estimated Actual Value of Taxable Property	161
Direct and Overlapping Property Tax Rates	162
Principal Property Taxpayers	163
Property Tax Levies and Collections	165
Historical Sales Tax Amounts by Benchmark Year	166
Principal Sales Tax Producers	167
Ratios of Outstanding Debt by Type	168
Ratios of General Bonded Debt Outstanding	170
Direct and Overlapping Debt	171
Legal Debt Margin Information	173
Pledged — Revenue Coverage	174
Demographic and Economic Statistics	176
Principal Employers	177
Full-time Equivalent City Employees by Department	178
Operating Indicators by Function	179
Capital Asset Statistics by Function	180

COMPREHENSIVE ANNUAL FINANCIAL REPORT



INTRODUCTORY SECTION
FISCAL YEAR ENDED JUNE 30, 2018

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City of Palm Springs

Department of Finance & Treasury

3200 E. Tahquitz Canyon Way • Palm Springs, California 92262
Tel: (760) 323-8229 • Fax: (760) 322-8320 • Web: www.palmspringsca.gov

December 27, 2018

To the citizens of The City of Palm Springs, California:

The comprehensive annual financial report (CAFR) of the City of Palm Springs (the City) for the fiscal year ended June 30, 2018, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The report includes the City's government-wide financial statements and fund financial statements. The government-wide financial statements include two statements: the Statement of Net Position showing the total net equity of the City, including infrastructure, and the Statement of Activities that shows the cost of providing government services. Both of these statements have been prepared using the accrual basis of accounting, used by most businesses, as compared to the modified accrual method used in fund financial statements (the traditional governmental financial reports). A reconciliation report is provided in the CAFR Fund Financial Statements to account for the differences between the two reporting methods.

In addition, the reporting model includes an emphasis on the City's major funds as shown in the Governmental Fund Statements. The statements, combined with other information, are further analyzed in the **Management's Discussion and Analysis** (MD&A). The MD&A provides "financial highlights" and a financial interpretation of trends, fluctuations and variances in the financial data. The MD&A further discusses any events or decisions that significantly affect the financial condition of the City.

The City is required to undergo an annual single audit in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Information related to this single audit, including the schedule of federal financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations are included in a separate report.

The City provides a full range of services including public safety, highways and streets, sanitation, culture and recreation, aviation, public improvements, planning and zoning, community development, and general administrative services. In addition to general government activities, the City serves as the Successor Agency for the former Community Redevelopment Agency of the City of Palm Springs, and is considered to be financially accountable for the Palm Springs Financing Authority; therefore, these activities are included in the reporting entity.

GENERAL INFORMATION

The City of Palm Springs, incorporated in 1938, is located in the western part of the Coachella Valley, one of the fastest growing regions of the State. The full time population of 48,142 increases substantially in the tourist season (approximately November through May) with the influx of part-time residents and hotel visitors. The full time population growth was 0.2% versus the prior year.

At 96.2 square miles, the City is one of the largest in area in the State.

ECONOMIC CONDITION AND OUTLOOK

Since 2014, the City of Palm Springs has experienced increases in the top three revenue categories: transient occupancy taxes, sales taxes, and property taxes. These revenue increases are evidence of the strong tourist industry. Beginning in 2015-2016 and continuing through 2017-2018, property tax revenues have exceeded pre-recession levels as a result of the ongoing rebound in the real estate market locally, statewide, and throughout the nation. This important revenue category is expected to continue on a moderate path for growth.

Transient Occupancy Tax (TOT), or 'hotel, motel, and vacation rental tax,' is the City's most significant revenue source. TOT revenue has consistently increased due to the combination of increased marketing efforts both nationally and internationally, as well as increased airline routes and seat capacity made through the City's and Greater Palm Springs Convention and Visitor Bureau's Airline Incentive Programs, the recent remodeling of several hotels accomplished in conjunction with the City's Hotel Incentive Program, and continuing TOT audits of hotels, motels, and vacation rental properties. Over the past ten years, TOT revenue has climbed 516% from \$5.6 million in 2008-09 to \$34.2 million in 2017-18. In more recent years, we have experienced more moderate increases of 14.6% and 10.6% increases in 2016-17 and 2017-18, which we anticipate continuing into the future.

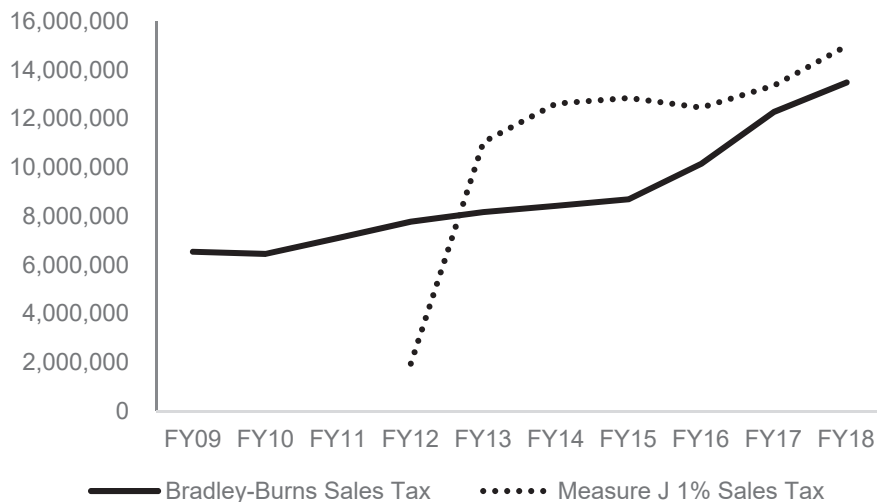
Transient Occupancy Tax Revenue 10-Year History



The traditional Bradley-Burns Sales Tax for the 2017-2018 fiscal year was \$13.5 million, a 95.1% increase over the past ten fiscal years. With a 21% and 9.9% annual increase seen in 2016-17 and 2017-18 fiscal years, respectively. Although the overall economy has come out of a slowdown phase, the City has experienced a more rapid recovery than other parts of the County and anticipates continued growth in sales tax as the construction of the Downtown Revitalization Project continues, which includes construction of restaurants and retail establishments.

In April 2012, the City began receiving the voter-approved Measure J, a local revenue measure increasing the local sales and use tax by one percent (1%), to maintain local community services and economically revitalize the downtown area. A special nine-member citizens' oversight commission was created to review revenues and expenditures, and make capital projects recommendations to the City Council. Measure J helps finance a bond to pay for the City's purchase of assets as part of the planned implementation of the Downtown Revitalization Project. This project is going to boost the economy in the City and the Coachella Valley as a whole.

Sales Tax Revenue 10-Year History



Additionally, on November 7, 2017, Palm Springs voters approved Measure D, an additional 1/2 percent sales tax increase which went into effect on April 1, 2018. Measure D is expected to generate approximately \$6.7 million per year and will add additional funds for public safety and assist in reducing the growing pressure on the City due to CalPERS investment income falling short of their own long-term projections.

Though property taxes have traditionally been the City's largest source of General Fund revenue, for the past six years beginning with fiscal year 2012-2013, it has been below both transient occupancy taxes and sales taxes. Property taxes in the General Fund, which represent 20% of all operating fund revenue, increased by \$2.2 million, or 7.8% over the prior year. Additional planned new construction and the continued strengthening of existing property values is expected to continue to provide additional revenue growth in the coming years.

Other than transient occupancy tax, sales tax, and property tax, revenue increases have been relatively modest compared to the steady increases in a variety of areas such as pensions, health care, and utilities costs over the last several years. Fortunately, even as the Federal Reserve has begun increasing interest rates, inflation increases continue to be modest which has kept many expense increases relatively low.

MAJOR INITIATIVES FOR THE YEAR

The Palm Springs International Airport serves over 2 million passengers annually allowing visitors from around the world to experience the many amenities that make the Palm Springs destination like no place else in Southern California. Airport expansions include the ticketing area, vehicle rental areas, and the Transportation Security Administration (TSA) screening areas. Service has continued to expand with eleven airlines and many added non-stop flights and destinations in 2018.

The attraction to our first class city includes large scale events such as the Palm Springs International Film Festival, Modernism Week, the Gay Pride Parade, Tour de Palm Springs, Dinah Shore Weekend, and the White Party. Tourists continue to enjoy the City's famed midcentury modern design and architecture along with an array of art and cultural exhibits at the Palm Springs Art Museum. Hotel incentives offered by the City are used to renovate, upgrade, and rebrand existing hotels. The Wyndham Palm Springs (now the Renaissance), Howard Johnson (ACE Hotel and Swim Club), and the Ramada Inn (Saguaro) are a few hotels receiving incentives and increasing occupancy rates. New hotels continue to meet the increasing tourist demand with the November 2017 opening of the Kimpton Rowan Palm Springs Hotel and the anticipated 2019 openings of the Andaz Palm Springs by Hyatt and the Dream Hotel.

The next major capital project for the City is a 1.4 acre downtown park estimated at a cost of \$6 million funded through Measure J sales tax. Construction is estimated for completion in the spring of 2020. Also scheduled for spring of 2020 is a new Cultural Center developed by the Agua Caliente Band of Cahuilla Indians. In addition, the College of the Desert is expected to open a new west valley campus in early 2021 at the mostly vacant Palm Springs Mall property purchased in April 2018.

In addition, the ½ cent Measure D local sales tax became effective April 1, 2018 generated \$1.5 million in new revenue for the City general fund for the three months of 2017-18. Anticipated revenue for 2018-19 is \$7.1 million. As the economy continues to grow in Palm Springs, so does the anticipated increases of TOT, sales taxes, and property taxes.

FOR THE FUTURE

Employment Contract Negotiations & Retirement Costs

At the end of Fiscal Year 2017-18, all employee bargaining unit contracts expired. As a result, contract negotiations have been ongoing for the three-year contract period, July 1, 2018 – June 30, 2021. The Management Association of Palm Springs (MAPS) and Palm Springs Firefighters Association (PSFA) units have agreed to annual cost of living increases; MAPS 2.5% annually and PSFA increases of 2.58%, 3.91%, and 2% over the next three fiscal years. Agreement has not been reached on the remaining four bargaining units.

In addition, required employer contributions as a percent of projected payroll is continuing to increase. Below are the projected future employer contributions based on the CalPERS Actuarial Valuation:

Employer PERS Rate Increases	Actual for	Actual for	Projected	Projected
By Group	<u>FY 18-19</u>	<u>FY 19-20</u>	<u>FY 20-21</u>	<u>FY 21-22</u>
Police & Fire (Safety)	+3.882%	+4.500%	+4.600%	+3.600%
Non-Safety (Miscellaneous)	+2.860%	+2.700%	+2.300%	+1.700%
Employer PERS Rate Increases	Actual for	Actual for	Projected	Projected
By Group	<u>FY 18-19</u>	<u>FY 19-20</u>	<u>FY 20-21</u>	<u>FY 21-22</u>
Police & Fire (Safety)	53.3%	57.8%	62.4%	66.0%
Non-Safety (Miscellaneous)	31.0%	33.7%	36.0%	37.7%

To offset against the rising retirement costs, the City Council has established a reserve for future cost increases. As of June 30, 2018, total reserves were \$8.05 million; \$7.25 million from the General Fund and \$0.8 million from the Airport. An additional \$3.2 million is budgeted in fiscal year 2018-19; \$3.0 million from the General Fund and \$0.2 million from the Airport.

Redemption of Long-term Debt

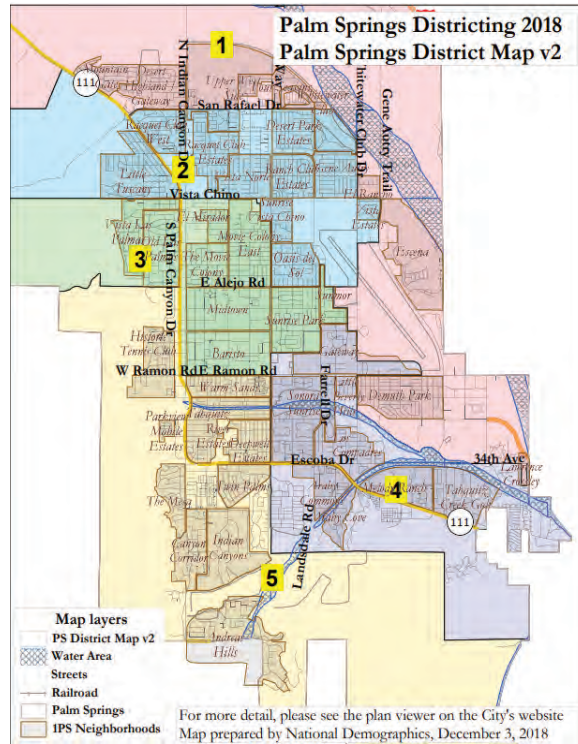
Each November, prior year surplus Passenger Facility Charge (PFC) revenue is used for the early redemption of 1998, 2006, and 2008 Bonds. In January 2019, the \$235 thousand outstanding balance on the 1998 PFC Bonds will be fully redeemed by the City. In July 2019, the City intends on redeeming \$2.2 million of the existing 2006 and 2008 PFC Bonds. Both bond issues will have remaining balances after the special redemption and debt schedules will be revised. This reduces the City’s annual debt liability going forward.

Completion of the Wastewater Treatment Plant Improvements

As of November 2018, the wastewater treatment plan Capital Improvement Plan was completed. The project was significantly funded by the State Water Resources Control Board and included headwork, a primary pump station, two new primary clarifiers, primary sludge pump station, and primary degrading station. A new Capital Improvement Plan will be developed in 2019 for ongoing plant upgrades.

Change in Method of Council Election

The Palm Springs City Council is in the process of transitioning from an at-large method of election to a district-based election pursuant to Elections Code Section 10010. Below is the approved five-district voting map. The district-based election process will be implemented as the current council members are up for re-election; three seats in November 2019 and two in 2021. The position of mayor will become rotating and annually appointed.



FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit. As a recipient of federal, state and county financial assistance, the City also is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the City.

As a part of the City's single audit, described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the government has complied with applicable laws and regulations. The results of the City's most recent single audit, for fiscal year ended June 30, 2017, provided no instances of material weaknesses in the internal control structure or signification violations of applicable laws and regulations.

Financial and Budgetary Controls. In addition, the City maintains financial and budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the fund level. The City maintains an encumbrance accounting system as one

technique of accomplishing budgetary control. Purchase orders that would result in an overrun of a department line item account may not be processed until either a budget transfer from another account is processed, or after a budget amendment is processed which requires City Council approval. Encumbered amounts and unspent budgeted appropriations are reviewed and carried over at year end at the discretion of the City Manager. Additional year-end transfers between funds may be processed as needed at the City Manager's discretion.

As part of the passage of the Measure J increase of 1% to the sales and use tax, the City formed a nine-member citizens' oversight commission to review all projected revenues and recommended expenditures, oversee and monitor Measure J expenditures, and review the independent audit of revenues and expenditures from Measure J. Also, a separate financial review is prepared and presented by a second independent accounting firm to the City Council.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Appropriation Limitation. As required by Article XIII B of the California Constitution, the City's appropriation limitation for 2017-2018 expenditures was calculated at \$159.1 million. Appropriations subject to limitation totaled \$103.6 million, or \$155.5 million below the City's legal appropriation limit. All of the City's proprietary funds are exempt, as are federal funds.

Debt Administration. As of June 30, 2018, the total remaining principal on the long-term debt of the City and its related entities is \$209.5 million; \$176.8 and \$32.7 million, governmental and business-type balances, respectively.

OTHER INFORMATION

Independent Audit. State statute requires an annual audit by independent certified public accountants. The accounting firm of Lance, Soll & Lunghard was selected by the City Council with the recommendation of the Finance Director and a Review Committee after a formal Request for Proposal process. Subsequently, a contract was entered into with Lance, Soll & Lunghard, LLP to perform audit services for the City and Redevelopment Agency. In addition to meeting the requirements set forth in state statutes, the audit was also designed to meet the requirements of the Federal Single Audit Act of 1984 and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The auditor's report on the general purpose financial statements and combining, individual fund and schedules are included in the financial section of this report. The City's independent auditors, Lance, Soll & Lunghard, LLP, have issued an unmodified opinion. The auditor's reports related specifically to the single audit are included in the Single Audit Report.

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Palm Springs for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. This was the 29th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily-readable and efficiently-organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments. The preparation of this report on a timely basis could not have been accomplished without the team effort provided by the entire Finance Department staff. Specific gratitude and recognition is given to our CAFR lead, Celeste Reid, Accountant. In addition, without the dedicated effort provided by Dolores Olvera, Accounting Supervisor; Thomas Hays, Deputy Treasurer; Catherine Salazar-Wilson, Senior Financial Analyst; and Ariana Muniz, Administrative Assistant, our CAFR could not have been completed. Also, thank you Lance, Soll, & Lunghard, our independent auditors, for all of your technical expertise and guidance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Marla L. Pendleton, CPA".

Marla L. Pendleton, CPA
Interim Director of Finance and Treasurer

CITY OF PALM SPRINGS

List of Principal Officials

June 30, 2018

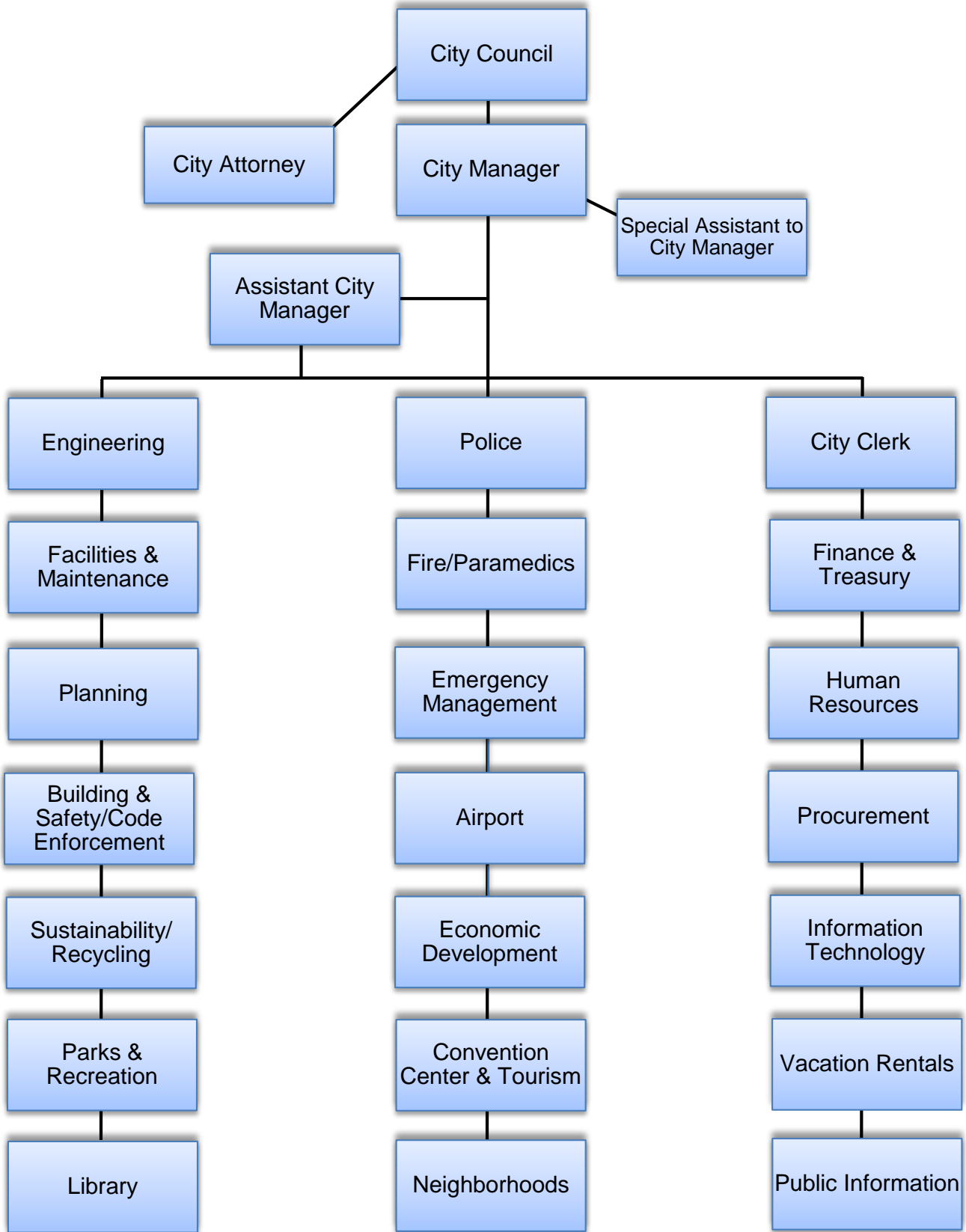
CITY COUNCIL

Robert Moon, Mayor
J.R. Roberts, Mayor Pro Tem
Christy Holstege
Geoff Kors
Lisa Middleton

EXECUTIVE MANAGEMENT

City Manager	David H. Ready
Assistant City Manager	Marcus Fuller
City Attorney	Edward Z. Kotkin
City Clerk	Anthony J. Mejia
Director of Animal Control	Leslie Tisdale
Director of Building and Safety	James Zicaro
Director of Community/Economic Development	Jay Virata
Director of Engineering	Thomas Garcia
Director of Finance and Treasurer	Geoffrey S. Kiehl
Director of Finance and Treasurer (Interim)	Marla L. Pendleton
Director of Human Resources	Perry Madison
Director of Library Services	Regina Kays
Director of Maintenance and Facilities	Staci Shafer
Director of Recreation	Vicki Oltean
Director of Planning Services	Flinn Fagg
Vacation Rental Compliance	Boris Stark / Suzanne Severin
Executive Director of PS Int'l Airport	Thomas Nolan
Fire Chief	Kevin Nalder
Police Chief	Bryan Reyes

City of Palm Springs Organizational Chart





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Palm Springs
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

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COMPREHENSIVE ANNUAL FINANCIAL REPORT



FINANCIAL SECTION
FISCAL YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Palm Springs, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Palm Springs, California, (the City) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



To the Honorable Mayor and Members of the City Council
City of Palm Springs, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palm Springs, California, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2018 the City adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules for the General Fund and the Housing Fund, the schedule of changes in net pension liability and related ratios, the schedule of changes in OPEB liability and related ratios, and the schedules of plan contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.



To the Honorable Mayor and Members of the City Council
City of Palm Springs, California

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Lance, Solt & Lughard, LLP

Brea, California
December 26, 2018

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CITY OF PALM SPRINGS
Management's Discussion and Analysis
June 30, 2018

This section of the City of Palm Springs (the City) Comprehensive Annual Financial Report (CAFR) provides a narrative overview of the City's financial activities for the fiscal year ended June 30, 2018. We recommend reader's to consider this information in conjunction with the basic financial statements identified in the accompanying table of contents.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis (MD&A) is intended to serve as an introduction to the City's basic financial statements which is comprised of three components: (1) Government-wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of City finances in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or declining.

The *statement of activities* provides information about the City's net position demonstrating how it changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes (transient occupancy, property and sales - *governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, cultural and convention center, parks and recreation, public works, and library. Governmental activities include five major funds; General Fund, Housing, Capital Projects, Measure J and Special Assessments Debt Service, and 29 non-major funds. The business-type activities of the City include three major enterprise funds; Airport, Wastewater and Golf Course, and six internal service funds.

The government-wide financial statements also provide information regarding the City's component units, entities for which the City (the primary government) is considered to be financially accountable. Although the City's two blended component units (the Successor Agency to the Community Redevelopment Agency and the City of Palm Springs Financing Authority) are legally separate entities, they are, in substance, part of the City's operations. Accordingly, the financial information from these units is combined with financial information of the primary government.

Fund Financial Statements provide information about the City's three categories of funds - governmental, proprietary and fiduciary, rather than the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to segregate money related to government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

Governmental funds, which focus on the sources, uses, and balances of current financial resources, are used to account for the majority of City services. Governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year unlike government-wide financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. The governmental funds' balance sheet and statement of revenues, expenditures, and changes in fund balances provided are accompanied by reconciliations to the government-wide financial statements in order to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains several individual governmental funds organized according to their type (general, special revenue, capital projects and debt service). The governmental fund financial statements present the financial information of each major fund (the General Fund, Housing, Capital Projects, Measure J and Special Assessments Debt Fund) in separate columns. Financial information for the remaining 29 governmental funds (nonmajor funds) is combined into a single, aggregated presentation. Financial information for each of these nonmajor governmental funds is presented in the supplementary information section.

Budgetary comparison statements are also included in the fund financial statements. The statements present the City's annual estimated revenue and appropriation budgets for all governmental funds. The budgetary comparison statements have been provided to demonstrate compliance with their respective budgets.

Proprietary funds are used to account for business-like activities provided to internal or external customers at a cost. The proprietary fund statements provide the same information as shown in the government-wide financial statements with more detail. The City maintains two types of proprietary funds:

- *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for Airport, Wastewater and Golf Course financial statements in separate columns of the proprietary fund statements.
- *Internal service funds* are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for motor vehicle replacement, facilities maintenance, employee benefits, risk management, retiree health insurance and the cogeneration energy plant. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the *governmental activities* in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund financial information for each internal service fund is provided in the required supplemental information section.

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

Fiduciary Funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support City programs nor be reflected in the government-wide financial statements. The City maintains one fiduciary fund, the Special Deposits Agency Fund, to primarily account for construction deposits. The City is responsible for ensuring that assets reported in this fund are used for their intended purposes.

Notes to the Basic Financial Statements provide additional information other than that displayed on the face of the financial statements and are essential for fair presentation of the financial information in the government-wide and fund financial statements.

Required Supplemental Information provides changes in net pension liability and related ratios, employer schedule of pension plan contributions, and budgetary comparison schedules for the general fund and housing.

Combining and individual fund statements and budgetary schedules provide information for nonmajor governmental funds, internal service funds, and the fiduciary fund, and are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position. Table 1 below focuses on the net position and changes in net position in the City's governmental and business-type activities. It presents an analysis of the City's net position as of June 30, 2018, compared to June 30, 2017. At the end of current fiscal year, the City reported positive net position in two of the three categories: net investment in capital assets and restricted net position. Total assets and deferred outflows of resources, as indicated below, exceeded liabilities and deferred inflows of resources by \$118 million, representing a decrease of \$79.7 million, or <40.3%> from the previous fiscal year. Implementation of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension*, attributed to \$97.6 million increase in long-term debt and a corresponding decrease in unrestricted net position. A more detailed discussion can be found under *Changes in the Total OPEB Liability* - Note 8 to the Basic Financial Statements.

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

GOVERNMENT-WIDE FINANCIAL STATEMENTS

A summary of the government-wide *statement of net position* follows:

Table 1
Net Position (in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 151,793	\$ 139,718	\$ 77,961	\$ 62,239	\$ 229,754	\$ 201,957
Capital assets	<u>262,637</u>	<u>256,746</u>	<u>136,003</u>	<u>122,147</u>	<u>398,640</u>	<u>378,893</u>
Total assets	414,430	396,464	213,964	184,386	628,394	580,850
Deferred Outflows	39,242	38,811	5,623	6,640	44,865	45,451
Long-term debt outstanding	464,079	353,871	54,940	41,320	519,019	395,191
Other liabilities	<u>12,170</u>	<u>12,124</u>	<u>11,771</u>	<u>7,672</u>	<u>23,941</u>	<u>19,796</u>
Total liabilities	476,249	365,995	66,711	48,992	542,960	414,987
Deferred Inflows	11,843	11,683	451	1,933	12,294	13,616
Net position:						
Invested in capital assets (net of debt)	141,220	120,746	104,660	102,298	245,880	223,044
Restricted	37,220	41,363	4,884	4,022	42,104	45,385
Unrestricted	<u>(212,860)</u>	<u>(104,512)</u>	<u>42,881</u>	<u>33,781</u>	<u>(169,979)</u>	<u>(70,731)</u>
Total net position	<u>\$ (34,420)</u>	<u>\$ 57,597</u>	<u>\$ 152,425</u>	<u>\$ 140,101</u>	<u>\$ 118,005</u>	<u>\$ 197,698</u>

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

A summary of the government-wide statement of activities follows:

Table 2
Changes in Net Position (in thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	\$ 19,193	\$ 16,509	\$ 45,446	\$ 41,711	\$ 64,639	\$ 58,220
Operating contributions & grants	3,829	2,880	-	-	3,829	2,880
Capital contributions & grants	2,633	4,189	3,770	1,520	6,403	5,709
General revenues:						
Property taxes & tax increment	31,292	24,536	-	-	31,292	24,536
Sales taxes	32,957	28,591	-	-	32,957	28,591
Transient occupancy taxes	34,241	30,972	-	-	34,241	30,972
Other taxes	12,777	13,111	-	-	12,777	13,111
Gain on sale of capital asset	5	-	-	-	5	-
Other general revenues	1,759	6,119	2,062	1,081	3,821	7,200
Total revenues	138,686	126,907	51,278	44,312	189,964	171,219
Program expenses						
General government	24,668	19,998	-	-	24,668	19,998
Public safety	55,466	49,398	-	-	55,466	49,398
Culture and convention center	7,474	7,454	-	-	7,474	7,454
Parks and recreation	10,412	9,903	-	-	10,412	9,903
Public Works	20,621	33,476	-	-	20,621	33,476
Library	3,196	3,239	-	-	3,196	3,239
Interest	6,641	6,857	-	-	6,641	6,857
Airport	-	-	28,716	28,962	28,716	28,962
Wastewater	-	-	7,456	7,010	7,456	7,010
Golf Course	-	-	5,208	5,141	5,208	5,141
Total expenses	128,478	130,325	41,380	41,113	169,858	171,438
Excess (deficiency) before transfers	10,208	(3,418)	9,898	3,199	20,106	(219)
Transfers	(725)	(2,246)	725	2,246	-	-
Increase (decrease) in net position	9,483	(5,664)	10,623	5,445	20,106	(219)
Beginning net position	57,597	64,440	140,101	134,507	197,698	198,947
Restatement of net position	(101,500)	(1,179)	1,701	149	(99,799)	(1,030)
Ending net position	\$ (34,420)	\$ 57,597	\$ 152,425	\$ 140,101	\$ 118,005	\$ 197,698

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

Revenues for governmental activities

Total revenues for governmental activities were \$138.7 million, an increase of \$11.8 million, or 9.3% from fiscal year 2016-17. The increase was significantly attributed to increases in sales tax, transient occupancy taxes (TOT) and charges for services of \$4.4, \$3.3, and \$2.7 million, respectively.

- Sales tax increased \$4.4 million in 2018 due primarily to increased sales yielding \$1.2 and \$1.6 million in the Bradley Burns 1% local sales tax and the Measure J additional 1% local sales tax dedicated to maintain community services. Food and transportation industry sales yielded the highest increase during the year. In addition, with the passage of the .5% Measure D sales tax increase, \$1.4 million new tax revenue was generated during the year for the City.
- Transient occupancy taxes (TOT) increased \$3.3 million from 2016-17 generating \$34.2 million for the year. With the healthy tourism economy and hotel incentive programs offered by the City, hotels are benefiting with higher occupancy rates and are able to obtain higher room rates, resulting in higher TOT. In addition, TOT revenue generated \$8.3 million from vacation rentals, an increase of \$0.8 million from the prior year.
- Charges for services increased \$2.7 million, 16.3%, to \$19.2 million. Significant increases were attributed to public works and general government which increased \$1.2 and \$0.8 million, respectively.
 - Public works charges for services was \$7.0 million in the current year, an increase of \$1.2 million, 20.1%. The significant increases were attributed to the small hotel tourism business improvement district tax, new Senate Bill 1 road maintenance funds and timing differences in requesting reimbursement for CSA 152 costs.
 - General Government charges for services was \$5.8 million in the current year, an increase of \$0.8 million, 16.5%, primarily due to the collection of administrative citations from the addition of code enforcement officers and an increase in vacation rental permit fees.

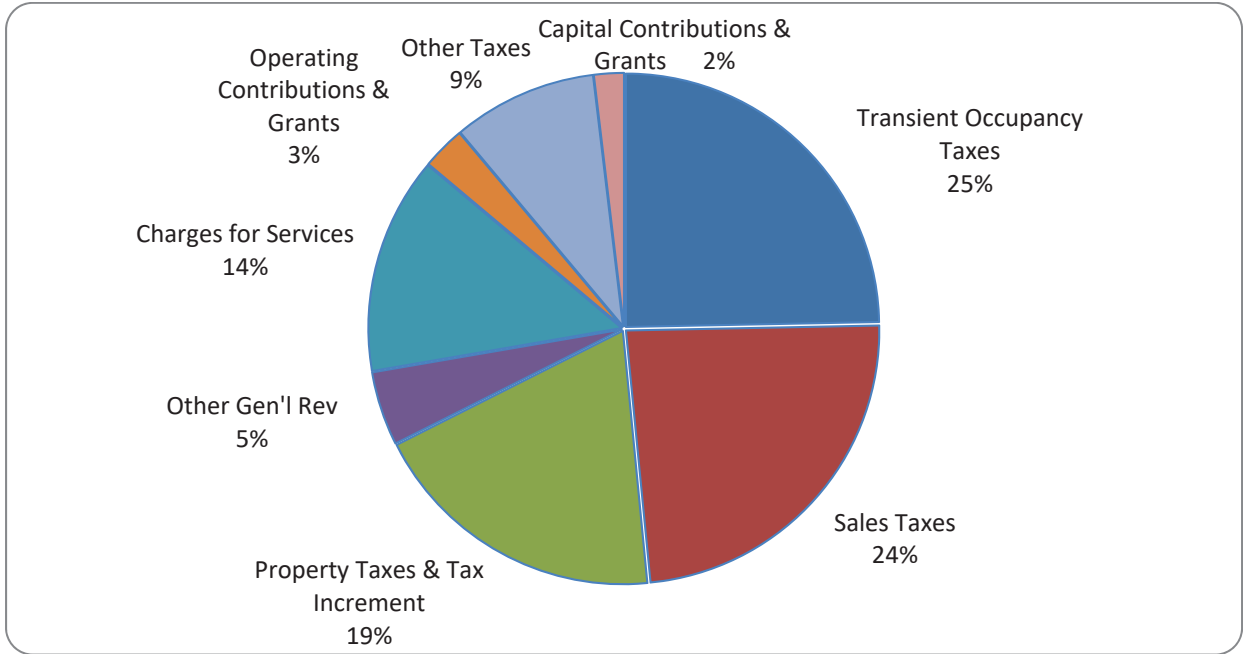
Expenses for governmental activities

Total expenses for governmental activities were \$128.5 million, a net decrease of \$1.8 million, or 1.4% from fiscal year 2016-17. The net decrease was the result of a \$10.8 combined increase in general government and public safety expenses (\$4.7 and \$6.1 million increase respectively) and a \$12.9 million decrease, 38.4% in public works expenses.

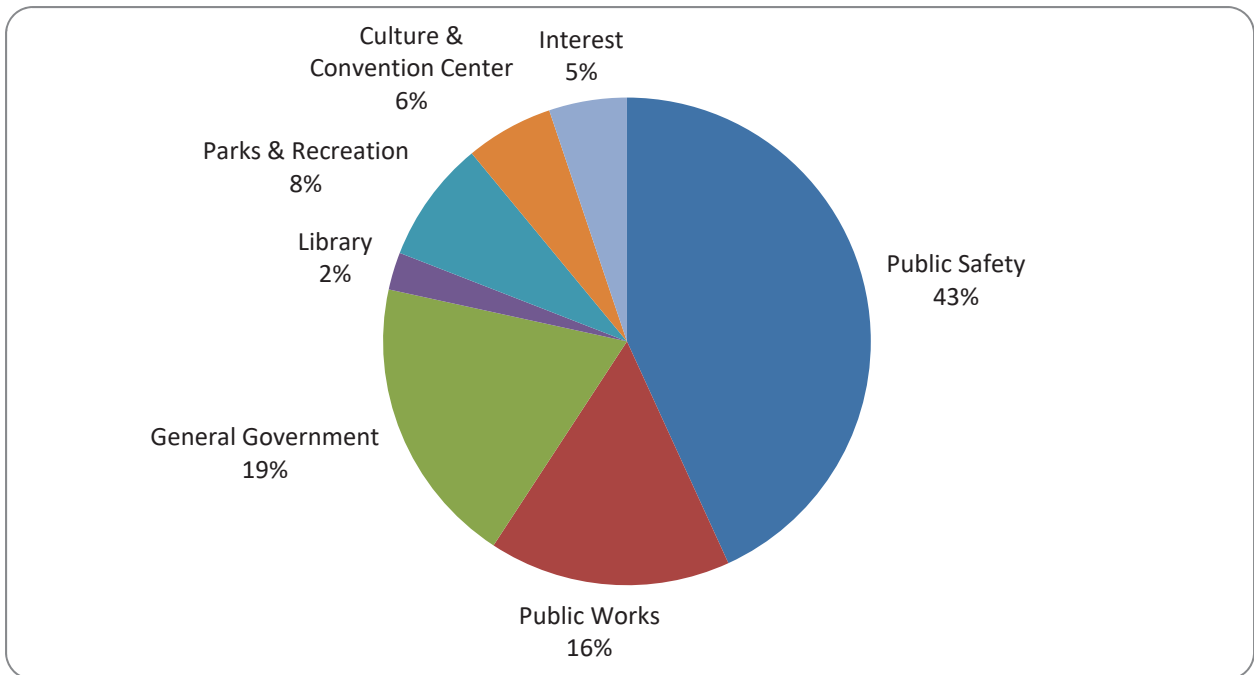
- General Government increased \$4.7 million, 23.4%, from \$20.0 million in 2016-17 to \$24.7 million. The following factors attributed to the majority of the increase:
 - City facility improvement costs for reroofing, solar photovoltaic system, and police remodeling attributed to \$2.1 million.
 - TOT incentive payments increased \$1.2 million due to the opening of the Rowen Hotel and the overall increase in TOT revenue.
 - The creation of the Vacation Rental Department attributed to \$661 thousand of the increase.
- Public Safety increased \$6.1 million, 12.3%, from \$49.4 million in 2016-17 to \$55.5 million. Significant factors attributing to the increase included:
 - Net pension liability \$4.7 million.
 - Police safety costs of \$1.2 million, which included the addition of six authorized positions; three police and three jail transport officers and filling vacant positions.
 - Fire safety costs of \$1.0 million, included the addition of one authorized fire deputy chief position and filling vacant positions.
- Public Works decreased \$12.9 million, 38.4%, from \$33.5 million in 2016-17 to \$20.6 million primarily attributed to the reclassification of capital assets expensed on the fund statements to capitalization on government-wide statements. A more detailed discussion can be found under *Capital Assets* - Note 4 to the Basic Financial Statements.

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

Revenue by Source – Governmental Activities



Expenses by Function – Governmental Activities



CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

Revenues for business-type activities

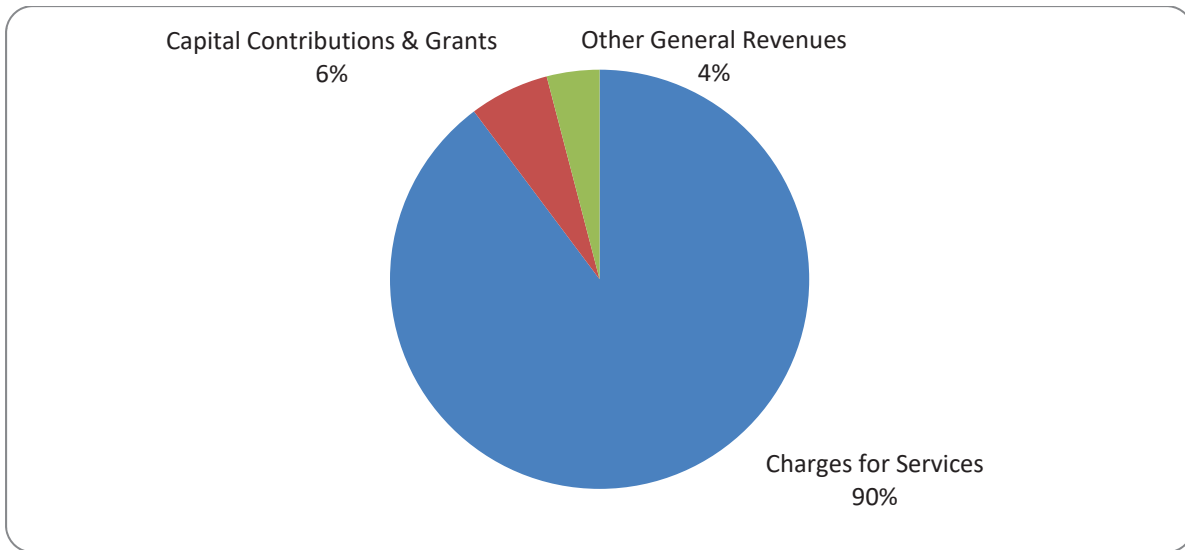
Revenue from City business-type activities (Table 2) increased \$6.9 million, 15.7% from 2016-17 \$44.3 to \$51.3 million of which charges for services and capital contributions attributed to \$3.7 and \$1.6 million of the respective increase.

- Charges for services had two significant increases attributing to an increase of \$3.7 million:
 - Airport revenue increased \$2.5 million, 9.8%, from \$25.6 to \$28.1 million attributed to increased number of airplane landings and rental car parking. Landing fees increased \$0.7 million and rental revenue \$1.3 million from 2016-17.
 - Wastewater Treatment Plant recognized \$1.1 million in revenue associated with the forgiveness of debt from the California State Water Resources Control Board.
- Capital contributions increase of \$1.6 million was the result of \$3 million of federal grant revenue being received compared to \$1.4 million in 2016-17.

Expenses for business-type activities

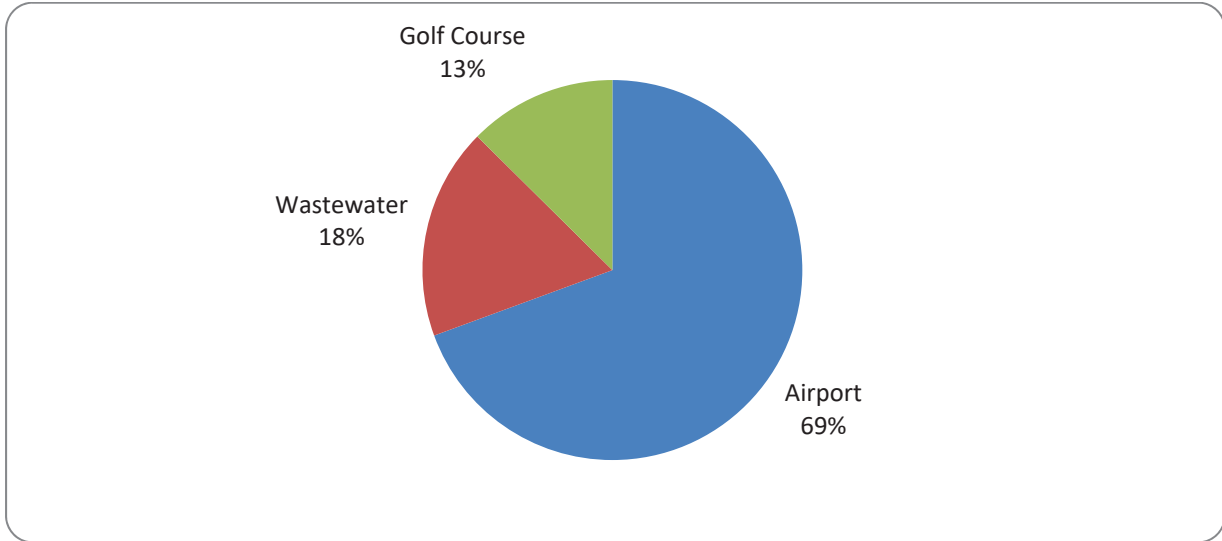
Expenses from City business-type activities were \$41.4 million compared to \$41.1 million in 2016-17, resulting in a minor increase of \$0.3 million, .6%.

Revenues by Source – Business-type Activities



CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

Expenses by Function – Business-type Activities



CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

FINANCIAL ANALYSIS OF FUND STATEMENTS

As noted earlier, the City uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on the sources, uses, and balances of spendable resources. Such information is useful in assessing the City's short-term financial requirements. In particular, the total fund balance less the nonspendable amount may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the general fund, special revenue funds, capital projects funds and debt service funds. As of June 30, 2018, the City's governmental funds reported combined fund balances of \$108.7 million, an increase of \$13.6 million, 14.3%, in comparison with the prior year. The components of total fund balance are as follows:

- Nonspendable fund balance – \$3.0 million, amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted fund balance – \$37.2 million, amounts that are constrained to being used for a specific purpose by external parties such as creditors, grantors, laws, or regulations.
- Assigned fund balance – \$33.0 million, amounts that have been set aside and are intended to be used for a specific purpose but are neither restricted nor committed.
- Unassigned fund balance – \$35.4 million, funds that are not reported in any other category and are available for any purpose within the general fund.

Total governmental fund revenue increased by \$7.8 million, or 5.9%, from the prior fiscal year with \$139.7 million being recognized for the fiscal year ended June 30, 2018. Expenditures increased by \$6.8 million, or 5.8%, from the prior fiscal year with \$123.7 million being expended for governmental functions during fiscal year 2017-18. Overall, governmental fund balance increased by \$13.6 million, or 14.3%. In comparison, fiscal year 2016-17 had an increase in governmental fund balance of \$9.8 million, or 11.5%, over fiscal year 2015-16.

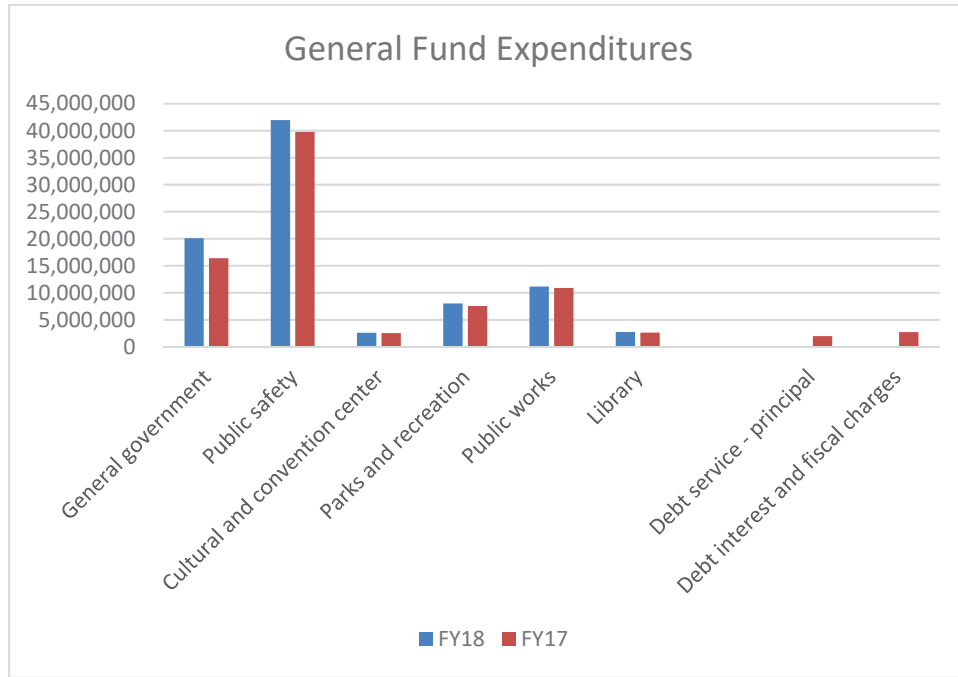
Major Governmental Funds

The general fund is the primary operating fund of the City. At the end of the current fiscal year, the general fund's total fund balance was \$50.3 million, as compared to \$32.6 million in fiscal year 2016-17, an increase of \$17.7 million, 54.5%. As a measure of the general fund's liquidity, it is useful to compare both total fund balance and spendable fund balance to total fund expenditures. The nonspendable portion of fund balance was \$3.0 million, and the spendable portion was \$47.3 million, which was 3.5% and 54.6%, respectively, of the total general fund expenditures of \$86.6 million, as compared to 3.6% and 35.0%, respectively, of the prior year expenditures total of \$84.4 million.

Total general fund revenue increased \$11.4 million, 10.3%, from \$110.6 to \$122.0 million. As noted above under governmental activities, the increase was significantly attributed to increases in sales tax, transient occupancy taxes (TOT) and charges for services of \$4.4, \$3.3, and \$2.7 million, respectively.

CITY OF PALM SPRINGS
Management’s Discussion and Analysis (Continued)
June 30, 2018

Total general fund expenditures were relatively consistent from \$84.4 million in fiscal year 2016-17 to the \$86.6 million in the current year, an increase of \$2.1 million, 2.5%. The below chart compares expenditures by functional area for the two fiscal years.



The other Major Governmental Funds include the **Special Assessments Debt Service, Capital Projects, Measure J and Housing.**

The Special Assessments Debt Service revenue and expenditures was consistent in the current fiscal year compared to 2016-17.

The Capital Projects Fund includes both projects funded by transfers from the General Fund and by grants. Total capital project fund revenue decreased \$4.1 million, 48.3%, from \$8.6 to \$4.4 million due to significant Federal reimbursement being received in the prior year for completed bridge improvement projects. Total capital project expenditures increased \$1.8 million, 42.7%, from \$4.2 million in fiscal year 2016-17 to \$6.0 million in the current year. The increase was primarily related to city facility improvements for reroofing, solar photovoltaic system, and police remodeling.

The Measure J Fund accounts for the one percent sales tax approved in Palm Springs for the restricted use of community services and revitalization of downtown Palm Springs. The sales tax revenue is recognized in the General Fund and the cash transferred into the Measure J fund for its intended use. Total other financing sources, including transfers in, increased \$1.6 million, 15.8%, from \$10.2 million in 2016-17 to \$11.8 million due to the general increase in sales tax, as noted above under government-wide revenue from governmental activities. Total Measure J expenditures decreased \$1.7 million, 16.6%, from \$10.3 million in fiscal year 2016-17 to \$8.6 million in the current year due to less funding expended on street repairs.

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

The Successor Housing Fund captures general government costs related to the final dissolution of the Community Redevelopment Agency, which was required under the February 2012 Dissolution Act (Assembly Bill x1 26, amended by AB 1484 in June 2012 and Senate Bill 107 in September 2015). There was no significant variance between current year revenue and expenditures compared to 2016-17. Additional information can be found under *Successor Agency Trust for Assets of Former Redevelopment Agency* - Note 12 to the Basic Financial Statements.

Other Governmental Funds

The \$5.7 million, or 19.5%, decrease in nonmajor governmental funds fund balance was primarily attributed to scheduled annual principal payments of outstanding debt in debt service fund.

Proprietary Funds

The City's proprietary funds financial statements provide the same type of information as the government-wide financial statements, but in more detail. The Airport, Wastewater Treatment Plant and Golf Course are shown in separate columns of the fund statements. Although combined with the governmental activities in the government-wide statements, the internal service funds are in total as a single, aggregated presentation in the proprietary fund statements with the individual fund data provided in the combining statements, which can be found in the supplemental information section.

At the end of the fiscal year, total enterprise fund net position was \$152.4 million, compared to \$140.1 million for in the previous fiscal year; this represents an increase of \$12.3 million, 8.8%. The Airport and Wastewater Funds attributed to the majority of the increase with a total increase in net position of \$5.1 and \$5.4 million, respectively.

The increase in the Airport net position was attributed to operating income, federal grant reimbursements and a restatement of \$1.3, \$3.1 and \$1.7million, respectively, less \$723 thousand bond refinancing cost.

The increase in Wastewater was primarily attributed to operating income of \$5.3 million which compares to the \$4.8 million operating income from 2016-17.

The decrease of \$148.0 million in the Internal Service Funds was due to the implementation of new accounting standards (GASB 75) and is discussed under *Long-Term Debt* in this MD&A.

CITY OF PALM SPRINGS
Management’s Discussion and Analysis (Continued)
June 30, 2018

GENERAL FUND BUDGET

The original budget compared to the final general fund budget, as presented in the *Budgetary Comparison Schedule* included in the *Required Supplemental Information Section*, decreased \$3.9 million. The net decrease was the result of \$1.5 million increase in budgeted revenue and \$5.3 million increase in appropriations during the fiscal year.

General fund revenue was originally budgeted at \$109.7 million and several budget adjustments were made throughout the fiscal year resulting in a final revenue budget of \$111.2 million. Tax revenue was the most significant budget increased during the year. Budgeted revenue for TOT, Measure J and Cannabis taxes were increased \$675, \$400 and \$100 thousand, respectively.

The general fund expenditure budget increased \$5.3 million from the original \$93.6 million to the final \$98.9 million. The most significant increases were in general government, public safety and parks and recreation which increased \$2.3, \$1.0 and \$1.2 million, respectively. General government increase related to the establishment of a reserve to fund future CalPERS retirement costs. Public safety budget increased for the addition of police and fire safety personnel. Parks and recreation budget increase due to increases in general operating costs for grounds, facilities and events.

CAPITAL ASSETS

Capital assets, net of depreciation, increased from \$378.9 to \$398.6 million from fiscal year 2016-17 to 2017-18 representing a net increase of \$19.7 million, 5.2%. The significant increases resulted from street improvements, new police and fire vehicles, and Wastewater Treatment Plant and airport improvements. For more detailed information on capital asset activity, see Capital Assets Note 4 in the Notes to the Basic Financial Statements.

Capital Assets
(in thousands, net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Buildings	\$ 50,017	\$ 51,285	\$ 41,488	\$ 26,323	\$ 91,505	\$ 77,608
Improvements	28,390	29,797	45,600	49,315	73,990	79,112
Furniture and equipment	13,535	13,712	2,029	1,457	15,564	15,169
Vehicles	6,984	3,737	1,583	1,697	8,567	5,434
Infrastructure	107,421	101,210	6,070	6,617	113,491	107,827
Land	33,029	33,647	39,233	36,738	72,262	70,385
Construction in progress	6,393	6,678	0	0	6,393	6,678
Right-of-way	16,868	16,680	0	0	16,868	16,680
Total	<u>\$ 262,637</u>	<u>\$ 256,746</u>	<u>\$ 136,003</u>	<u>\$ 122,147</u>	<u>\$ 398,640</u>	<u>\$ 378,893</u>

CITY OF PALM SPRINGS
Management's Discussion and Analysis (Continued)
June 30, 2018

LONG-TERM DEBT

As of June 30, 2018, the City's total outstanding long-term debt was \$519.0 million, an increase of \$123.8 million, 31.3%, increase from \$395.1 million in 2016-17. The increase is primarily due to the implementation of Governmental Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which requires state and local governments to recognize a defined benefit liability for other postemployment benefits (OPEB). The actuarial determined total OPEB liability was \$141.6 million, resulting in an increase of \$97.6 million obligation due to the required change in accounting principal. Additional information on the OPEB liability is disclosed in Note 8 in the Notes to the Basic Financial Statements.

In addition to the new accounting standards impacting the long-term debt increase, the unfunded pension liability increased \$18.8 million (\$12.1 and \$6.7 million for the Safety and Miscellaneous CalPERS plans respectively) from \$149.1 in 2016-17 to \$167.9 million in the current year. Defined Benefit Pension Plan (PERS) Note 7 in the Notes to the Basic Financial Statements includes more detail information on the net pension liability.

Long Term Debt
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Compensated Absences	\$ 6,383	\$ 6,796	\$ 810	\$ 773	\$ 7,193	\$ 7,569
Claims and Judgments	9,400	9,545	-	-	9,400	9,545
Leases	4,097	917	644	-	4,741	917
Notes Payables	17,194	17,681	14,355	-	31,549	17,681
Lease Revenue Bonds	114,332	119,866	16,848	20,435	131,180	140,301
Special Assessment Bonds	5,427	5,803	-	-	5,427	5,803
Pension Obligation Bonds	20,012	20,248	-	-	20,012	20,248
Total	176,845	180,856	32,657	21,208	209,502	202,064
Net OPEB Obligation	141,642	44,041	-	-	141,642	44,041
Net Pension Obligation	145,592	128,972	22,283	20,112	167,875	149,084
Total Long-Term Debt	\$ 464,079	\$ 353,869	\$ 54,940	\$ 41,320	\$ 519,019	\$ 395,189

Contacting the City's Financial Management:

This financial report is designed to provide a general overview of the City's finances. Questions about information contained within this report or the need for any additional financial information, should be addressed to the City of Palm Springs, Department of Finance, 3200 E. Tahquitz Canyon Way, Palm Springs, CA 92263; Phone: (760) 323-8229; website: www.palmspringsca.gov.

CITY OF PALM SPRINGS

STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 113,105,177	\$ 64,716,474	\$ 177,821,651
Receivables:			
Accounts	12,947,919	2,893,936	15,841,855
Notes and loans	6,840,164	-	6,840,164
Accrued interest	1,147,179	76,897	1,224,076
Special assessments	5,477,214	-	5,477,214
Internal balances	2,640,000	(2,640,000)	-
Deposits	200,000	-	200,000
Due from other governments	-	8,012,711	8,012,711
Advances to Successor Agency	3,349,154	-	3,349,154
Inventories	139,094	16,652	155,746
Land held for resale	638,904	-	638,904
Restricted assets:			
Cash and investments	1,119,051	-	1,119,051
Cash with fiscal agent	4,189,508	4,884,179	9,073,687
Capital assets not being depreciated	56,290,352	39,232,866	95,523,218
Capital assets, net of depreciation	206,346,500	96,770,513	303,117,013
Total Assets	414,430,216	213,964,228	628,394,444
Deferred Outflows of Resources:			
Deferred charge on refunding	2,395,631	503,827	2,899,458
Deferred pension related items	33,365,981	5,119,255	38,485,236
Deferred OPEB related items	3,480,420	-	3,480,420
Total Deferred Outflows of Resources	39,242,032	5,623,082	44,865,114
Liabilities:			
Accounts payable	9,755,480	9,202,398	18,957,878
Accrued liabilities	1,407,438	248,461	1,655,899
Accrued interest	950,362	1,548,414	2,498,776
Unearned revenue	-	272,603	272,603
Deposits payable	47,950	500,000	547,950
Due to other governments	9,209	-	9,209
Noncurrent liabilities:			
Due within one year	13,333,278	2,924,085	16,257,363
Due in more than one year	163,511,570	29,732,921	193,244,491
Total OPEB liability	141,642,158	-	141,642,158
Net pension liability	145,591,876	22,282,586	167,874,462
Total Liabilities	476,249,321	66,711,468	542,960,789
Deferred Inflows of Resources:			
Deferred pension related items	2,041,046	450,530	2,491,576
Deferred OPEB related items	9,801,593	-	9,801,593
Total Deferred Inflows of Resources	11,842,639	450,530	12,293,169
Net Position:			
Net investment in capital assets	141,219,883	104,660,531	245,880,414
Restricted for:			
Community development projects	10,474,318	-	10,474,318
Public safety grants and programs	2,404,756	-	2,404,756
Parks and recreation activities	3,525,098	-	3,525,098
Public works projects	14,393,474	-	14,393,474
Villagefest	42,422	-	42,422
Debt service	1,579,684	4,884,179	6,463,863
Library	37,039	-	37,039
Lease	2,084,603	-	2,084,603
Special projects	2,678,824	-	2,678,824
Unrestricted	(212,859,813)	42,880,602	(169,979,211)
Total Net Position	\$ (34,419,712)	\$ 152,425,312	\$ 118,005,600

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CITY OF PALM SPRINGS

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Functions/Programs				
Primary Government:				
Governmental Activities:				
General government	\$ 24,668,184	\$ 5,784,465	\$ 322,591	\$ -
Public safety	55,465,639	4,352,932	1,211,504	131,083
Cultural and convention center	7,473,990	157,769	-	-
Parks and recreation	10,412,411	1,913,540	5,700	453,124
Public works	20,620,601	6,956,478	2,289,577	2,048,821
Library	3,196,140	28,287	16	-
Interest on long-term debt	6,640,855	-	-	-
Total Governmental Activities	128,477,820	19,193,471	3,829,388	2,633,028
Business-Type Activities:				
Airport	28,715,596	28,134,244	-	3,120,082
Wastewater	7,455,920	12,785,023	-	-
Golf Course	5,208,536	4,526,664	-	649,472
Total Business-Type Activities	41,380,052	45,445,931	-	3,769,554
Total Primary Government	\$ 169,857,872	\$ 64,639,402	\$ 3,829,388	\$ 6,402,582

General Revenues:

Taxes:

Property taxes, levied for general purpose

Transient occupancy taxes

Sales taxes

Franchise taxes

Utility users tax

Other taxes

Motor vehicle in lieu - unrestricted

Use of money and property

Other

Gain on sale of capital asset

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position at Beginning of Year

Restatement of Net Position

Net Position at End of Year

Net (Expenses) Revenues and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (18,561,128)	\$ -	\$ (18,561,128)
(49,770,120)	-	(49,770,120)
(7,316,221)	-	(7,316,221)
(8,040,047)	-	(8,040,047)
(9,325,725)	-	(9,325,725)
(3,167,837)	-	(3,167,837)
(6,640,855)	-	(6,640,855)
(102,821,933)	-	(102,821,933)
-	2,538,730	2,538,730
-	5,329,103	5,329,103
-	(32,400)	(32,400)
-	7,835,433	7,835,433
(102,821,933)	7,835,433	(94,986,500)
31,291,584	-	31,291,584
34,241,233	-	34,241,233
32,956,508	-	32,956,508
3,075,279	-	3,075,279
7,056,058	-	7,056,058
2,646,499	-	2,646,499
24,940	-	24,940
1,600,566	129,407	1,729,973
133,067	1,932,378	2,065,445
4,680	-	4,680
(725,601)	725,601	-
112,304,813	2,787,386	115,092,199
9,482,880	10,622,819	20,105,699
57,597,498	140,101,437	197,698,935
(101,500,090)	1,701,056	(99,799,034)
\$ (34,419,712)	\$ 152,425,312	\$ 118,005,600

CITY OF PALM SPRINGS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Special Revenue Funds		Measure J
		Housing	Capital Projects Funds	
Assets				
Pooled cash and investments	\$ 38,319,652	\$ 2,561,246	\$ 7,512,476	\$ 16,116,161
Receivables:				
Accounts	10,417,458	-	848,273	-
Notes and loans	250,001	6,490,163	-	-
Accrued interest	792,821	3,148	-	18,722
Special assessments	-	-	-	-
Deposits	200,000	-	-	-
Due from other funds	5,134,071	-	-	2,347,066
Advances to other funds	1,210,000	49,950	-	-
Land held for resale	49,950	588,954	-	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	1,609,428	827,629	-	-
Total Assets	\$ 57,983,381	\$ 10,521,090	\$ 8,360,749	\$ 18,481,949
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 2,946,187	\$ -	\$ 1,498,387	\$ 2,064,257
Accrued liabilities	1,272,858	3,483	6,374	4,250
Deposits payable	13,870	34,080	-	-
Due to other governments	-	9,209	-	-
Due to other funds	2,347,066	-	-	-
Advances from other funds	49,950	-	-	-
Total Liabilities	6,629,931	46,772	1,504,761	2,068,507
Deferred Inflows of Resources				
Unavailable revenues	1,043,260	-	426,591	-
Total Deferred Inflows of Resources	1,043,260	-	426,591	-
Fund Balances				
Nonspendable:				
Advances to other funds	1,210,000	-	-	-
Deposits	200,000	-	-	-
Advance to Successor Agency	1,609,428	-	-	-
Restricted for:				
Community development projects	-	10,474,318	-	-
Public safety grants and programs	-	-	-	-
Parks and recreation activities	-	-	-	-
Public works projects	-	-	-	-
Villagefest	-	-	-	-
Debt service	-	-	-	-
Library	-	-	-	-
Lease	-	-	-	-
Special projects	-	-	-	-
Assigned to:				
Public works projects	-	-	-	16,413,442
Capital Projects	-	-	6,429,397	-
Continuing appropriations	2,423,725	-	-	-
CalPERS	7,250,000	-	-	-
Unassigned	37,617,037	-	-	-
Total Fund Balances	50,310,190	10,474,318	6,429,397	16,413,442
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 57,983,381	\$ 10,521,090	\$ 8,360,749	\$ 18,481,949

CITY OF PALM SPRINGS

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>Debt Service Funds</u>		
	<u>Special Assessments</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Pooled cash and investments	\$ 1,293,152	\$ 23,880,990	\$ 89,683,677
Receivables:			
Accounts	9,981	1,323,173	12,598,885
Notes and loans	-	100,000	6,840,164
Accrued interest	1,486	24,525	840,702
Special assessments	5,477,214	-	5,477,214
Deposits	-	-	200,000
Due from other funds	-	-	7,481,137
Advances to other funds	-	-	1,259,950
Land held for resale	-	-	638,904
Restricted assets:			
Cash and investments	-	1,119,051	1,119,051
Cash and investments with fiscal agents	275,065	3,199,066	3,474,131
Advance to Successor Agency	-	912,097	3,349,154
Total Assets	\$ 7,056,898	\$ 30,558,902	\$ 132,962,969
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 1,383,747	\$ 7,892,578
Accrued liabilities	-	52,894	1,339,859
Deposits payable	-	-	47,950
Due to other governments	-	-	9,209
Due to other funds	-	5,134,071	7,481,137
Advances from other funds	-	-	49,950
Total Liabilities	-	6,570,712	16,820,683
Deferred Inflows of Resources			
Unavailable revenues	5,477,214	484,965	7,432,030
Total Deferred Inflows of Resources	5,477,214	484,965	7,432,030
Fund Balances			
Nonspendable:			
Advances to other funds	-	-	1,210,000
Deposits	-	-	200,000
Advance to Successor Agency	-	-	1,609,428
Restricted for:			
Community development projects	-	-	10,474,318
Public safety grants and programs	-	2,404,756	2,404,756
Parks and recreation activities	-	3,525,098	3,525,098
Public works projects	-	14,393,474	14,393,474
Villagefest	-	42,422	42,422
Debt service	1,579,684	-	1,579,684
Library	-	37,039	37,039
Lease	-	2,084,603	2,084,603
Special projects	-	2,678,824	2,678,824
Assigned to:			
Public works projects	-	-	16,413,442
Capital Projects	-	511,927	6,941,324
Continuing appropriations	-	-	2,423,725
CalPERS	-	-	7,250,000
Unassigned	-	(2,174,918)	35,442,119
Total Fund Balances	1,579,684	23,503,225	108,710,256
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 7,056,898	\$ 30,558,902	\$ 132,962,969

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CITY OF PALM SPRINGS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Fund balances of governmental funds		\$ 108,710,256
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.		242,195,746
Deferred outflows of resources related to the following long-term activities:		
Deferred charge on refunding of bonds		2,355,000
Deferred pension contributions made after the actuarial measurement date for the net pension liability.		32,119,397
Deferred inflows of resources related to the following long-term activities:		
Deferred difference between expected and actual experiences		(79,261)
Deferred difference between projected and actual earnings on pension investments		(1,531,296)
Deferred changes in actuarial assumptions.		(310,104)
Long-term debt, net pension liability and compensated absences that have not been included in the governmental fund activity:		
Bonds payable	\$ (105,809,636)	
Unamortized bond premiums/discounts	(6,590,156)	
Special assessment debt	(5,475,000)	
Capital lease payable	(404,715)	
Notes payable	(162,660)	
Net pension liability	(139,319,269)	
Compensated absences	<u>(6,137,764)</u>	(263,899,200)
Accrued interest payable for the current portion of interest due on Bonds has not been reported in the governmental funds.		(692,851)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.		7,432,030
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net position.		<u>(160,719,429)</u>
Net Position of Governmental Activities		<u><u>\$ (34,419,712)</u></u>

CITY OF PALM SPRINGS

STATEMENT OF REVENUES,
EXPENDITURE AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Special Revenue Funds		Capital Projects Funds	
	General	Housing	Capital Projects	Measure J
Revenues				
Taxes	\$ 108,243,435	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	5,266,590	-	359,260	-
Intergovernmental	373,097	-	4,145,311	-
Charges for services	7,143,370	-	-	-
Use of money and property	523,089	6,311	(62,197)	22,723
Fines and forfeitures	-	-	-	-
Contributions	74,197	-	-	-
Miscellaneous	422,089	30,228	3,158	-
Total Revenues	122,045,867	36,539	4,445,532	22,723
Expenditures				
Current:				
General government	20,084,214	172,420	2,387,947	-
Public safety	41,951,070	-	842,338	-
Cultural and convention center	2,585,508	-	-	-
Parks and recreation	8,020,413	-	-	-
Public works	11,151,350	-	2,792,864	8,567,776
Library	2,760,477	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	86,553,032	172,420	6,023,149	8,567,776
Excess (Deficiency) of Revenues Over (Under) Expenditures	35,492,835	(135,881)	(1,577,617)	(8,545,053)
Other Financing Sources (Uses)				
Transfers in	887,500	-	-	14,993,495
Transfers out	(18,640,906)	-	-	(3,200,000)
Total Other Financing Sources (Uses)	(17,753,406)	-	-	11,793,495
Net Change in Fund Balances	17,739,429	(135,881)	(1,577,617)	3,248,442
Fund Balances, Beginning of Year	32,570,761	10,610,199	8,007,014	13,165,000
Fund Balances, End of Year	\$ 50,310,190	\$ 10,474,318	\$ 6,429,397	\$ 16,413,442

CITY OF PALM SPRINGS

STATEMENT OF REVENUES,
EXPENDITURE AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Debt Service Funds</u>		
	<u>Special Assessments</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ -	\$ 3,023,726	\$ 111,267,161
Assessments	574,096	1,122,683	1,696,779
Licenses and permits	-	761,717	6,387,567
Intergovernmental	-	1,617,495	6,135,903
Charges for services	-	4,065,058	11,208,428
Use of money and property	11,973	1,205,786	1,707,685
Fines and forfeitures	-	140,911	140,911
Contributions	-	624,214	698,411
Miscellaneous	-	10,424	465,899
Total Revenues	<u>586,069</u>	<u>12,572,014</u>	<u>139,708,744</u>
Expenditures			
Current:			
General government	-	339,137	22,983,718
Public safety	-	3,064,556	45,857,964
Cultural and convention center	-	1,852,385	4,437,893
Parks and recreation	-	1,579,918	9,600,331
Public works	20,680	4,722,867	27,255,537
Library	-	57,720	2,818,197
Debt service:			
Principal retirement	380,000	5,272,364	5,652,364
Interest and fiscal charges	164,863	4,899,495	5,064,358
Total Expenditures	<u>565,543</u>	<u>21,788,442</u>	<u>123,670,362</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>20,526</u>	<u>(9,216,428)</u>	<u>16,038,382</u>
Other Financing Sources (Uses)			
Transfers in	-	5,346,799	21,227,794
Transfers out	-	(1,840,950)	(23,681,856)
Total Other Financing Sources (Uses)	<u>-</u>	<u>3,505,849</u>	<u>(2,454,062)</u>
Net Change in Fund Balances	20,526	(5,710,579)	13,584,320
Fund Balances, Beginning of Year	<u>1,559,158</u>	<u>29,213,804</u>	<u>95,125,936</u>
Fund Balances, End of Year	<u>\$ 1,579,684</u>	<u>\$ 23,503,225</u>	<u>\$ 108,710,256</u>

CITY OF PALM SPRINGS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net change in fund balances - total governmental funds		\$ 13,584,320
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital outlay	\$ 14,541,175	
Depreciation	(11,461,345)	
Capital assets contributed to the Golf Course	(649,472)	
Disposition of capital assets	<u>(214,634)</u>	2,215,724
Repayment on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal and lease repayments	5,652,365	
Amortization of bond premiums/discounts	528,898	
Amortization of deferred charge on refunding of bonds	<u>(108,063)</u>	6,073,200
Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.		
		17,791
Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
		420,191
Pension obligation expenses is an expenditure in the governmental funds, but reduce the Net Pension Liability in the statement of net position.		
		(9,483,528)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.		
		(920,004)
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.		
		<u>(2,424,814)</u>
Change in Net Position of Governmental Activities		<u>\$ 9,482,880</u>

CITY OF PALM SPRINGS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Airport	Wastewater	Golf Course	Totals	
Assets					
Current:					
Cash and investments	\$ 40,205,165	\$ 23,343,622	\$ 1,167,687	\$ 64,716,474	\$ 23,421,500
Receivables:					
Accounts	2,603,803	14,067	276,066	2,893,936	349,034
Accrued interest	48,342	28,555	-	76,897	306,477
Due from other governments	-	8,012,711	-	8,012,711	-
Inventories	16,652	-	-	16,652	139,094
Restricted:					
Cash with fiscal agent	4,883,472	-	707	4,884,179	715,377
Total Current Assets	47,757,434	31,398,955	1,444,460	80,600,849	24,931,482
Noncurrent:					
Advances to other funds	-	-	-	-	1,430,000
Capital assets, net of accumulated depreciation	71,791,694	57,565,214	6,646,471	136,003,379	20,441,106
Total Noncurrent Assets	71,791,694	57,565,214	6,646,471	136,003,379	21,871,106
Total Assets	119,549,128	88,964,169	8,090,931	216,604,228	46,802,588
Deferred Outflows of Resources					
Deferred charge on refunding	133,522	-	370,305	503,827	40,631
Deferred pension related items	5,080,846	38,409	-	5,119,255	1,246,584
Deferred OPEB related items	-	-	-	-	3,480,420
Total Deferred Outflows of Resources	5,214,368	38,409	370,305	5,623,082	4,767,635
Liabilities					
Current:					
Accounts payable	3,236,530	5,539,585	426,283	9,202,398	1,862,902
Accrued liabilities	245,868	2,593	-	248,461	67,579
Accrued interest	298,311	88,756	1,161,347	1,548,414	257,511
Unearned revenues	272,603	-	-	272,603	-
Deposits payable	-	-	500,000	500,000	-
Accrued compensated absences	810,331	-	-	810,331	244,873
Accrued claims and judgments	-	-	-	-	3,540,646
Bonds, notes, and capital leases	1,380,000	-	733,754	2,113,754	1,564,469
Total Current Liabilities	6,243,643	5,630,934	2,821,384	14,695,961	7,537,980
Noncurrent:					
Advances from other funds	-	-	2,640,000	2,640,000	-
Accrued claims and judgments	-	-	-	-	5,859,072
Bonds, notes, and capital leases	8,549,660	14,354,637	6,828,624	29,732,921	41,055,857
Total OPEB liability	-	-	-	-	141,642,158
Net pension liability	22,249,430	33,156	-	22,282,586	6,272,607
Total Noncurrent Liabilities	30,799,090	14,387,793	9,468,624	54,655,507	194,829,694
Total Liabilities	37,042,733	20,018,727	12,290,008	69,351,468	202,367,674
Deferred Inflows of Resources					
Deferred pension related items	448,098	2,432	-	450,530	120,385
Deferred OPEB related items	-	-	-	-	9,801,593
Total Deferred Inflows of Resources	448,098	2,432	-	450,530	9,921,978
Net Position					
Net investment in capital assets	61,995,556	43,210,577	(545,602)	104,660,531	9,684,646
Restricted for debt service	4,883,472	-	707	4,884,179	715,377
Unrestricted	20,393,637	25,770,842	(3,283,877)	42,880,602	(171,119,452)
Total Net Position	\$ 87,272,665	\$ 68,981,419	\$ (3,828,772)	\$152,425,312	\$ (160,719,429)

CITY OF PALM SPRINGS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Airport	Wastewater	Golf Course	Totals	
Operating Revenues					
Sales and service charges	\$ -	\$12,785,023	\$ -	\$ 12,785,023	\$ 46,386,068
Landing fees	4,544,314	-	-	4,544,314	-
Green fees and cart rentals	-	-	4,526,664	4,526,664	-
Rentals	15,891,631	-	-	15,891,631	-
Concessions	869,756	-	-	869,756	-
Customer facility charges	2,290,030	-	-	2,290,030	-
Passenger facility charges	4,461,204	-	-	4,461,204	-
Miscellaneous	1,167,259	-	842,428	2,009,687	-
Total Operating Revenues	29,224,194	12,785,023	5,369,092	47,378,309	46,386,068
Operating Expenses					
Administration and general	3,365,268	1,999	2,980	3,370,247	3,984,773
Personnel services	11,176,060	72,420	-	11,248,480	17,700
Materials and supplies	420,123	-	-	420,123	-
Maintenance operations	11,929	-	-	11,929	2,577,659
Facilities maintenance	-	-	-	-	3,766,376
Retirement	-	-	-	-	16,294,013
Retiree health insurance	-	-	-	-	5,333,605
Other claims and insurance	-	373,446	-	373,446	947,067
Depreciation expense	6,851,969	2,077,211	119,079	9,048,259	1,435,446
Utilities	1,386,555	163,031	-	1,549,586	1,199,154
Other charges and services	4,678,877	4,767,813	4,685,430	14,132,120	2,979
Cogeneration electricity	-	-	-	-	778,543
Medical, health, and life insurance	-	-	-	-	8,452,756
Workers compensation	-	-	-	-	3,631,709
Total Operating Expenses	27,890,781	7,455,920	4,807,489	40,154,190	48,421,780
Operating Income (Loss)	1,333,413	5,329,103	561,603	7,224,119	(2,035,712)
Nonoperating Revenues (Expenses)					
Interest revenue	74,851	53,775	781	129,407	(107,119)
Interest expense	(722,870)	-	(248,323)	(971,193)	(2,015,124)
Intergovernmental	3,120,082	-	-	3,120,082	-
Gain (loss) on disposal of capital assets	(101,945)	-	(152,724)	(254,669)	4,680
Total Nonoperating Revenues (Expenses)	2,370,118	53,775	(400,266)	2,023,627	(2,117,563)
Income (Loss) Before Transfers and Contributions	3,703,531	5,382,878	161,337	9,247,746	(4,153,275)
Transfers in	-	-	1,013,101	1,013,101	1,728,461
Transfers out	(287,500)	-	-	(287,500)	-
Capital contributions	-	-	649,472	649,472	-
Changes in Net Position	3,416,031	5,382,878	1,823,910	10,622,819	(2,424,814)
Net Position, Beginning of Year, as Previously Reported	82,155,578	63,598,541	(5,652,682)	140,101,437	(12,729,485)
Restatements	1,701,056	-	-	1,701,056	(145,565,130)
Net Position, Beginning of Year, as Restated	83,856,634	63,598,541	(5,652,682)	141,802,493	(158,294,615)
Net Position, End of Year	\$87,272,665	\$68,981,419	\$(3,828,772)	\$ 152,425,312	\$(160,719,429)

CITY OF PALM SPRINGS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2018

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Airport	Wastewater	Golf Course	Totals	
Cash Flows from Operating Activities					
Cash received from customers and users	\$27,502,597	\$12,769,107	\$4,593,016	\$44,864,720	\$ -
Cash received from/(paid to) interfund service provided	-	-	-	-	46,156,128
Cash paid to suppliers for goods and services	(4,893,446)	(3,020,002)	(4,550,160)	(12,463,608)	(9,131,879)
Cash paid to employees for services	(12,886,197)	(65,322)	(2,980)	(12,954,499)	(32,126,771)
Cash received from others	2,191,283	-	842,428	3,033,711	(2,843,052)
Net Cash Provided (Used) by Operating Activities	11,914,237	9,683,783	882,304	22,480,324	2,054,426
Cash Flows from Non-Capital Financing Activities					
Cash transfers in	-	-	1,013,101	1,013,101	1,728,461
Cash transfers out	(287,500)	-	-	(287,500)	-
Net Cash Provided (Used) by Non-Capital Financing Activities	(287,500)	-	1,662,573	1,375,073	1,728,461
Cash Flows from Capital and Related Financing Activities					
Proceeds from capital debt	-	14,354,637	-	14,354,637	4,037,059
Acquisition and construction of capital assets	(3,644,661)	(16,294,731)	(658,643)	(20,598,035)	(5,082,277)
Principal paid on capital debt	(2,897,189)	-	(994,653)	(3,891,842)	(1,239,958)
Interest paid on capital debt	(758,221)	-	(232,654)	(990,875)	(2,013,448)
Intergovernmental	3,120,082	(7,467,037)	-	(4,346,955)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,179,989)	(9,407,131)	(1,885,950)	(15,473,070)	(4,298,624)
Cash Flows from Investing Activities					
Interest received	80,775	150,309	781	231,865	(96,276)
Net Cash Provided (Used) by Investing Activities	80,775	150,309	781	231,865	(96,276)
Net Increase (Decrease) in Cash and Cash Equivalents	7,527,523	426,961	659,708	8,614,192	(612,013)
Cash and Cash Equivalents at Beginning of Year	37,561,114	22,916,661	508,686	60,986,461	24,748,890
Cash and Cash Equivalents at End of Year	\$45,088,637	\$23,343,622	\$1,168,394	\$69,600,653	\$ 24,136,877
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities					
Operating income (loss)	\$ 1,333,413	\$ 5,329,103	\$ 561,603	\$ 7,224,119	\$ (2,035,712)
Adjustments to Reconcile Operating Income (Loss) Net Cash Provided (Used) by Operating Activities					
Depreciation	6,851,969	2,077,211	119,079	9,048,259	1,435,446
(Increase) decrease in accounts receivable	280,208	-	66,352	346,560	(226,677)
(Increase) decrease in inventory	(535)	-	-	(535)	1,799
(Increase) decrease in deferred outflows	934,434	657	-	935,091	(3,197,494)
Increase (decrease) in deferred inflows	(1,479,103)	(3,612)	-	(1,482,715)	9,372,336
Increase (decrease) in accounts payable	1,604,573	2,284,288	135,270	4,024,131	65,957
Increase (decrease) in accrued liabilities	4,144	339	-	4,483	(29,094)
Increase (decrease) in unearned revenue	189,478	(15,916)	-	173,562	(3,263)
Increase (decrease) in net pension liability	2,158,505	11,713	-	2,170,218	(3,768,704)
Increase (decrease) in net OPEB liability	-	-	-	-	579,907
Increase (decrease) in claims and judgments	-	-	-	-	(146,526)
Increase (decrease) in compensated absences	37,151	-	-	37,151	6,451
Total Adjustments	10,580,824	4,354,680	320,701	15,256,205	4,090,138
Net Cash Provided (Used) by Operating Activities	\$11,914,237	\$ 9,683,783	\$ 882,304	\$22,480,324	\$ 2,054,426
Non-Cash Investing, Capital, and Financing Activities:					
Bond discount (premiuim) amortization	\$ 37,811	\$ -	\$ 65,366	\$ 103,177	\$ (17,816)
Deferred loss on refunding amortization	44,506	-	37,330	81,836	2,139
Capital assets acquired under capital lease	-	-	1,014,725	1,014,725	-
Loss on disposal of capital assets	(101,945)	-	(152,724)	(254,669)	-
Accreted interest	-	-	-	-	313,617

CITY OF PALM SPRINGS

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2018

	<u>Agency Fund</u>	<u>Private Purpose Trust Funds</u>
	<u>Special Deposit</u>	<u>Successor Agency</u>
Assets		
Pooled cash and investments	\$ 1,523,091	\$ 6,030,645
Receivables:		
Accounts	-	40,215
Accrued interest	-	4,941
Land held for resale	-	1,219,320
Restricted assets:		
Cash and investments with fiscal agents	-	6,100
Total Assets	<u>\$ 1,523,091</u>	<u>7,301,221</u>
Deferred Outflows of Resources		
Deferred charge on refunding		237,133
Total Deferred Outflows of Resources		<u>237,133</u>
Liabilities		
Accounts payable	\$ -	1,857,633
Accrued liabilities	-	6,673
Accrued interest	-	451,735
Deposits payable	1,523,091	-
Long-term liabilities:		
Due in one year	-	1,775,000
Due in more than one year	-	36,927,710
Total Liabilities	<u>\$ 1,523,091</u>	<u>41,018,751</u>
Net Position		
Held in trust for other purposes		(33,480,397)
Total Net Position		<u>\$ (33,480,397)</u>

CITY OF PALM SPRINGS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2018

	<u>Private Purpose Trust Funds</u>
	<u>Successor Agency</u>
Additions	
Taxes	\$ 5,667,703
Interest and change in fair value of investments	(16,426)
Miscellaneous	285,750
Total Additions	<u>5,937,027</u>
Deductions	
Program costs	35,421
Administrative expenses	225,366
Interest and fiscal charges	1,523,950
DOF due diligence review payments	342,954
Loss on sale of capital assets	231,061
Total Deductions	<u>2,358,752</u>
Changes in Net Position	3,578,275
Net Position, Beginning of Year	<u>(37,058,672)</u>
Net Position, End of Year	<u>\$ (33,480,397)</u>

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I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Summary of Significant Accounting Policies

The basic financial statements of the City of Palm Springs, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting principles are described below.

a. Description of Reporting Entity

The City of Palm Springs was incorporated in 1938 under the general laws of the State of California. Effective July 12, 1994, the City of Palm Springs became a Charter City which was approved by the citizens of the City of Palm Springs on June 7, 1994. The City operates under the Council-Manager form of government.

As required by generally accepted accounting principles, the financial statements of the City of Palm Springs include the financial activities of the City (the primary government), and the Palm Springs Financing Authority (the Authority). This blended components unit is discussed below and is included in the reporting entity because of the significance of its operation and financial relationship with the City.

Blended Component Units

City of Palm Springs Financing Authority

The City of Palm Springs Financing Authority was created by a joint exercise of joint powers agreement between the City of Palm Springs and the Former Community Redevelopment Agency of the City of Palm Springs on February 1, 1991. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for various capital improvements. The Authority is administered by the Board who are the members of the City Council and the Mayor. The Authority's sole source of income is installment sale, loan and lease payments received from the City and Former Community Redevelopment Agency which are used to meet the debt service requirements on debt issues. The Authority is blended into various funds of the City. The dissolution of the Former Agency, and the assignment of the joint powers agreement to the City acting as successor agency to the Former Agency, will not affect the validity of the joint powers agreement.

Since the City Council serves as the governing board for the Palm Springs Financing Authority, the Financing Authority is considered to be blended component units. Blended component units, although legally separate entities, are in substance, part of the City's operations and so data from these units are reported with the primary government. The Palm Springs Financing Authority issues separate component unit financial statements. Upon completion, the financial statements of this component unit can be obtained at City Hall.

Note 1: Summary of Significant Accounting Policies (Continued)

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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. For this purpose, the government considers tax revenues to be available if they are collected within 60 days of the end of the current fiscal year and other revenues when collected within one year of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

The primary revenue sources susceptible to accrual are property taxes, sales taxes, highway user taxes, state gas tax subventions, intergovernmental revenues, franchise fees, transient occupancy tax, charges for services, and interest associated with the current fiscal period and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City's agency funds are custodial in nature and do not involve measurement of results of operations. The Private Purpose Trust Funds and the Agency Fund are reported using accrual basis of accounting.

The City reports the following major governmental funds:

General Fund - This is the primary operating fund of the City. It accounts for all activities of the general government, except those required to be accounted for in another fund.

Housing Fund - To account for housing revenues of the former redevelopment agency and expenditures related to the development of facilities within the City for citizens of low or moderate income means as required by California Redevelopment Law.

Capital Projects Fund - To account for the acquisition and construction of major capital facilities other than those financed by proprietary and trust funds.

Measure J Fund - To account for the costs related to various Measure J Projects.

Special Assessments Debt Service Fund - This debt service fund is used to account for the payment of principal and interest on 1915 Act Assessment District Bond issues.

The City reports the following major enterprise funds:

Airport Fund - This fund is used to account for operations of the City's international airport.

Wastewater Fund - This fund is used to account for operation of the City's wastewater treatment plant and related capital expenditures.

Golf Course Fund - This fund is used to account for operations of the City's two municipal golf courses.

Additionally, the City reports the following fund types:

Special Revenue Funds - These funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

Capital Projects Funds - Capital Projects Funds are used to account for the purchase or construction of major capital facilities which are not financed by proprietary funds.

Capital projects funds are ordinarily not used to account for the acquisition of furniture, fixtures, machinery, equipment, and other relatively minor or comparatively short-lived capital assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources and for general long-term debt principal and interest payments.

Internal Service Funds - These funds are used to account for motor vehicle replacement, facilities maintenance, employee benefits, risk management, retiree health insurance and the City's cogeneration plant. Departments of the City are charged for the services provided or benefits received from these funds.

Fiduciary Funds/Accounts

Private-Purpose Trust Funds – The City has one private purpose trust fund.

- Successor Agency of the Former Redevelopment Agency – This fund is used to account for the assets and liabilities of the former redevelopment agency and is allocated revenue until the obligations of the former redevelopment agency are paid in full and assets have been liquidated.

Agency Fund - This fund is used to account for monies held for various purposes ranging from bid bonds to donations for animal shelter activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds and various other governmental funds. Elimination of these charges would distort the direct costs and program revenues reported for the function concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) fines, forfeits and penalties, 3) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function and 4) other miscellaneous revenues that directly benefit a particular function and do not fit into any other category. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

d. Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus the increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. City property tax revenues are recognized when levied on the government-wide statements, and to the extent that they result in current receivables within 60 days in the governmental funds financial statements.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	November 1, February 1
Delinquent Date:	December 11, April 11

Taxes are collected by Riverside County and are remitted to the City periodically. Dates and percentages are as follows:

December 10-13	30% Advance
January 21-24	Collection No. 1
April 8-12	10% Advance
May 20-23	Collection No. 2
August 5-8	Collection No. 3

e. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates and have an original maturity date of three months or less.

Cash equivalents represent the proprietary funds' share in the cash and investment pool of the City of Palm Springs.

f. Investments

Investments are reported at fair value, except for certain certificates of deposit and investment agreements that are reported at cost because they are not transferable, and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

g. Inventories

Inventories are stated at average cost. Physical counts of inventory are taken on a cyclical basis during each fiscal year with perpetual records adjusted to actual.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

h. Capital Assets

Capital assets (including infrastructure) greater than \$5,000 are capitalized and recorded at cost or at the estimated fair value of the assets at the time of acquisition where complete historical records have not been maintained. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value.

Capital assets include property, plant, equipment, and infrastructure assets (roads, bridges, curbs and gutters, streets and sidewalks, medians, sewer and storm drains). Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the government-wide financial statements and in the fund financial statements of the proprietary funds.

The following schedule summarizes capital asset useful lives:

Buildings and Improvements	3-60 Years
Machinery, Furniture and Equipment	3-20 Years
Motor Vehicles	5-30 Years
Meters, Metering vaults, Subsurface lines	50 Years
Infrastructure:	
Pavement	25 Years
Curbs and gutters	50 Years
Sidewalks	50 Years
Other	25-75 Years

i. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will when required report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has three elements that qualify for reporting in this category. Deferred charges on refunding are reported in the government-wide statement of net position and the proprietary funds statement of net position. Deferred charges on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred pension related activity is reported in the government-wide statement of net position and the proprietary funds statement of net position. The City reports deferred outflows of resources for pension contributions made after the actuarial measurement date, this amount is deferred and will be recognized in the following fiscal year. The deferred outflows of resources for the net difference between projected and actual earning on pension plan investments will be amortized over a five-year period on a straight-line basis. The difference between expected and actual experience and all other deferred outflows related pension items will be recognized as indicated below. Deferred OPEB related items are reported in the government-wide statement of net position and proprietary funds statement of net position for contribution are made subsequent to the measurement date. This amount will be recognized in the following fiscal year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the balance sheet or statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of elements. Unavailable revenue, which arises only under a modified accrual basis of accounting, qualifies for reporting in this category. Accordingly, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from deferred loans. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred pension related activity is reported in the government-wide statement of net position and the proprietary funds statement of net position. This amount is the result of the differences between expected and actual experience and the changes in assumptions. These will be recognized as indicated below. Deferred OPEB related items are reported in the government-wide statement of net position and proprietary funds statement of net position for changes in actuarial OPEB assumption. This amount will be amortized as indicated below.

Gains and losses related to changes in total pension or OPEB liability and their related fiduciary net position are recognized in pension or OPEB expense, respectively, systematically over time. Amounts are first recognized in pension or OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pension or OPEB and are recognized in future pension and OPEB expense, respectively.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earning on pension or OPEB plan investments	5 years	All plans
All other amounts are amortized over the expected average remaining service lifetime (EARSL) of the respective plan. As of June 30, 2017, EARLS were:	6.68 years	OPEB plan
	3.1 years	Pension Miscellaneous -Agent Multiple Employer Plan
	4.9 years	Pension Safety Police – Agent Multiple Employer Plan
	5.2 years	Pension Safety Fire – Agent Multiple Employer Plan

j. Net Pension Liability

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

k. Other Post-Employment Benefits Liability

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the City's OPEB plan have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

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

l. Net Position Flow Assumption

Occasionally the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be determined about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

m. Fund Balance Flow Assumptions

Occasionally the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). To calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be determined about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

n. Land Held for Resale

Land held for resale represents land, structures, and their related improvements acquired for resale in accordance with the objective of the Redevelopment Project. Land held for resale is valued at the lower of cost or the estimated realizable value determined at the date a disposition and development agreement is executed.

Note 1: Summary of Significant Accounting Policies (Continued)

o. Compensated Absences

A liability is recorded for unused vacation and similar compensatory leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

A liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. This is estimated by including in the liability the unused balances of employees currently entitled to receive termination payment, as well as those who are expected to become eligible to receive termination benefits as a result of continuing their employment with the City.

Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) which is outside the control of the City and the employee.

If material, a proprietary fund liability is accrued for all leave benefits relating to the operations of the proprietary funds. A current liability is accrued in the governmental funds for material leave benefits due on demand to governmental fund employees that have terminated prior to year-end.

All other amounts will be recorded in the government-wide financial statements. These noncurrent amounts will be recorded as fund expenditures in the year in which they paid or become due on demand to terminated employees.

p. Claims and Judgments

The City records a liability for litigation, judgments, and claims when it is probable that an asset has been impaired or a liability (including incurred but not reported) has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the internal service fund that accounts for the City's self-insurance activities.

q. Fund Equity

The City Council adopted resolution 22928 in conformity with Governmental Accounting Auditing Standards Board (GASB) Statement 54. In the fund financial statements, governmental funds report the following fund balance classifications:

Non-spendable include amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either external editors, grantors, contributors, or laws of regulations of other governments or by law through constitutional provisions or enabling legislation.

Committed include amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Assigned include amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. The Finance Director and/or Treasurer is authorized to assign amounts to a specific purpose, which was established by the governing body in resolution.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes. The General Fund is the only fund that should report this category of fund balance, unless a negative fund balance exists.

An individual governmental fund may include non-spendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted or unrestricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, then unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

r. Use of Estimates

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

s. Deficit Fund Equity /Net Position

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

Fund	Deficit
CSA 152	\$ (660,743)
Community Development Block Grant	(159,683)
Special Grants	(37,860)
SB 1-RMRA	(38,147)
General Debt Service	(1,278,485)
Golf Course	(3,828,772)
Employee Benefits	(16,857,380)
Risk Management	(1,662,444)
Retiree Health Insurance	(146,612,833)
Cogeneration Plant	(3,196,471)
Successor Agency	(33,480,397)

The deficits will be recovered through future revenues and transfers.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

t. Effective New Accounting Standards

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

GASB Statement No. 75 – *Accounting and Financial Reporting For Post-Employment Benefits Other Than Pensions*. This Statement improves the accounting and financial reporting by state and local governments for post-employment benefits other than pensions (Other post-employment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. This Statement replaces GASB No. 45 and GASB No. 57.

Note 2: Cash and Investments

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

Governmental activities	\$ 118,413,736
Business-type activities	69,600,653
Fiduciary activities	<u>7,559,836</u>
Total cash and investments	<u>\$ 195,574,225</u>

Cash and investments as of June 30, 2018, consist of the following:

Cash on hand	\$ 7,950
Deposits with financial institutions	28,171,465
Investments	<u>167,394,810</u>
Total cash and investments	<u>\$ 195,574,225</u>

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures.

Interest income earned on pooled cash and investments is allocated quarterly to the funds based on the month-end cash and investment balances. Proceeds obtained from long-term debt issuances including construction, lease payment and reserve fund balances are held by the City or by fiscal agents on behalf of the City and invested in the City's name. Interest income on proceeds of debt is credited directly to the related fund, as defined by the Bond Indenture.

Deposits

At June 30, 2018, the carrying amount of the City's demand deposits was \$28,171,465 the bank balance was \$28,701,621. The \$530,156 difference represents outstanding checks, deposits in transit, and other reconciling items.

CITY OF PALM SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Note 2: Cash and Investments (Continued)

Under provisions of the City's investment policy and in accordance with Section 53601 of the California Government Code, the City may invest in the types of investments listed in the table below. The table also identifies certain provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	*Authorized by Investment Policy	*Maximum Maturity	*Maximum Percentages of Portfolio	*Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	15%	5%
U.S. Treasury Obligations	Yes	5 years	100%	None
U.S. Agency Securities	Yes	5 years	60%	None
Bankers' Acceptances	Yes	180 Days	20%	5%
Commercial Paper	Yes	270 Days	15%	None
Negotiable Certificates of Deposit	Yes	5 years	30%	5%
Repurchase Agreements	No	1 Year	None	5%
Reverse Purchase Agreements	No	92 Days	20% of base	None
Certificates of Deposits	Yes	5 years	20%	5%
Mutual Funds investing in eligible securities	No	N/A	10%	5%
Money Market Mutual Funds	Yes	N/A	10%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	100%	None
JPA Pools (other investment pools)	Yes	N/A	50%	None

* Based on State Law requirements or investment policy requirements, whichever is more restrictive.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity
U.S. Treasury Obligations	5 Years
U.S. Agency Securities	5 Years
Bankers' Acceptances	180 Days
Commercial Paper	270 Days
Money Market Mutual Funds	None
Investment Agreements	None
Local Agency Bonds	None
Certificates of Deposit	5 Years
Repurchase Agreements	1 Year
Financial Futures/Option Contracts	None
Negotiable Certificates of Deposit	5 Years
Local Agency Investment Fund (LAIF)	None

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018
Note 2: Cash and Investments (Continued)**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

Investment Type	Fair Value	Remaining Maturity (in Months)		
		12 Months or Less	13-36 Months	36-60 Months
Local Agency Investment Fund	\$ 39,776,801	\$ 39,776,801	\$ -	\$ -
Federal Agency Securities	83,288,925	4,453,135	45,739,840	33,095,950
Certificates of Deposit	4,892,810	-	3,440,743	1,452,067
Money Market Mutual Funds	29,237,984	29,237,984	-	-
Fiscal Agent Mutual Funds -Money Market	10,198,290	10,198,290	-	-
	<u>\$ 167,394,810</u>	<u>\$ 83,666,210</u>	<u>\$ 49,180,583</u>	<u>\$ 34,548,017</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type:	Fair Value	Minimum Credit Rating	Rating as of Year End		
			AAA	AA+	Not Rated
Local Agency Investment Fund	\$ 39,776,801	N/A	\$ -	\$ -	\$ 39,776,801
Federal Agency Securities	83,288,925	AA+	-	83,288,925	-
Certificates of Deposit	4,892,810	A	-	-	4,892,810
Mutual Funds -Money Market	39,436,274	AAA	39,436,274	-	-
	<u>\$ 167,394,810</u>		<u>\$ 39,436,274</u>	<u>\$ 83,288,925</u>	<u>\$ 44,669,611</u>

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 2: Cash and Investments (Continued)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Farm Credit Bank	Federal Agency Securities	\$ 18,176,710
Federal Home Loan Bank	Federal Agency Securities	16,134,175
Federal Home Loan Mortgage Corp.	Federal Agency Securities	28,876,495
Federal National Mortgage Assoc.	Federal Agency Securities	20,101,545

Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of June 30, 2018:

Investment Type	Totals	Level		
		1	2	3
Federal Agencies Security	\$ 83,288,925	\$ -	\$ 83,288,925	\$ -
Certificates of Deposit	4,892,810	4,892,810	-	-
Money Market Mutual Funds	29,237,984	-	29,237,984	-
Local Agency Investment Fund (LAIF)	39,776,801	-	39,776,801	-
Held by Fiscal Agent:				
Money Market Mutual Funds	10,198,290	-	10,198,290	-
Total Investments	<u>\$ 167,394,810</u>	<u>\$ 4,892,810</u>	<u>\$ 162,502,000</u>	<u>\$ -</u>

Certificates of Deposit are classified in Level 1 of the fair value hierarchy using prices quoted in active markets for those securities. Local Agency Investment Funds and Money Market Mutual Funds are classified in Level 2 of the fair value hierarchy using quoted prices for similar assets in active markets;

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 2: Cash and Investments (Continued)

For investments identified herein as held by bond trustee, the City's designee selects the investment under the terms of the applicable trust agreement, acquires the investment, and delivers to the Trustee the investment on behalf of the reporting government.

The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 3: Interfund Receivables, Payables and Transfers

Due To/Due From

Interfund receivable and payable balances at June 30, 2018, are as follows:

Due from Other Funds	Due to Other Funds		Total
	General Fund	Other Governmental Funds	
Governmental Fund:			
General Fund	\$ -	\$ 5,134,071	\$ 5,134,071
Measure J Fund	2,347,066	-	2,347,066
Totals	\$ 2,347,066	\$ 5,134,071	\$ 7,481,137

Interfund balances are the result of short-term borrowing to cover negative cash balances at June 30, 2018.

Advances

The City has authorized several interfund advances to be used for the operations of the funds receiving the advances. At June 30, 2018, the outstanding advances are:

	Advances to Other Funds	Advances from Other Funds
Governmental Funds:		
General Fund	\$ 1,210,000 (a)	\$ 49,950 (c)
Housing Fund	49,950 (c)	-
Enterprise Funds:		
Golf Course	-	2,640,000 (a) (b)
Internal Service Funds	1,430,000 (b)	-
Totals	\$ 2,689,950	\$ 2,689,950

(a) The Golf Course Fund initially received \$2,000,000 from the General Fund payable at 6% over 20 years. The City has elected to not accrue any interest for the year ended June 30, 2018 and the Golf Course has not made any interest payment. At June 30, 2018, the outstanding balance is \$1,210,000.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 3: Interfund Receivables, Payables and Transfers (Continued)

- (b) The Employee Benefits Internal Service Fund advanced \$1,430,000 to the Golf Course Fund to provide funds for the operation and debt service of the Golf Course. There are no stipulated interest rates or repayment dates.
- (c) The Housing Fund advanced \$49,950 to the General Fund for the purchase of two pieces of land held for resale.

Transfers In/Transfers Out

The following schedule summarizes the City's transfer activity:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 600,000
	Airport Enterprise Fund	287,500 (b)
Measure J Fund	General Fund	14,993,495 (e)
Nonmajor Governmental Funds	General Fund	2,146,799 (a)
	Measure J Fund	3,200,000 (d)
Internal Service Fund	General Fund	487,511 (g)
	Nonmajor Governmental Funds	1,240,950 (f)
Golf Course Enterprise Fund	General Fund	<u>1,013,101 (c)</u>
		<u><u>\$ 23,969,356</u></u>

- (a) Transfers from the General Fund to Nonmajor Governmental Funds were for debt service and supplemental costs.
- (b) Transfers from the Airport Fund to the General Fund were for supplemental costs.
- (c) Transfers from the General Fund to the Golf Course were for supplemental costs.
- (d) Transfers from the Measure J fund to the Nonmajor Governmental Funds were for debt service.
- (e) Transfers from the General Fund to the Measure J fund were for capital projects.
- (f) Transfers from the Nonmajor Governmental Funds to the Internal Service Fund were for the costs of investigating new energy development processes.
- (g) Transfers from the General Fund to Internal Service Funds were for the purchase of vehicles and to cover future risk management costs.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 4: Capital Assets

Governmental Activities	Beginning Balance	Adjustments	Balance	Transfers	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:							
Land	\$ 33,646,775	\$ -	\$ 33,646,775	\$ (649,472)	\$ 31,965	\$ -	\$ 33,029,268
Construction in progress	6,677,876	-	6,677,876	(6,529,051)	6,244,000	-	6,392,825
Right-of-way	16,680,446	-	16,680,446	-	187,813	-	16,868,259
Total Capital Assets, Not Being Depreciated	57,005,097	-	57,005,097	(7,178,523)	6,463,778	-	56,290,352
Capital assets, being depreciated:							
Buildings	95,985,707	-	95,985,707	-	748,563	3,247,390	93,486,880
Improvements	80,060,180	590,296	80,650,476	-	1,717,489	3,619,844	78,748,121
Furniture and equipment	25,556,023	-	25,556,023	-	640,063	2,806,548	23,389,538
Vehicles	16,169,494	-	16,169,494	-	4,140,096	115,225	20,194,365
Infrastructure	244,334,063	(566,542)	243,767,521	6,529,051	5,918,143	-	256,214,715
Total capital assets, being depreciated	462,105,467	23,754	462,129,221	6,529,051	13,164,354	9,789,007	472,033,619
Less accumulated depreciation for:							
Buildings	(44,701,263)	-	(44,701,263)	-	(1,923,546)	(3,153,909)	(43,470,900)
Improvements	(50,263,275)	-	(50,263,275)	-	(3,542,125)	(3,447,727)	(50,357,673)
Furniture and equipment	(11,843,666)	-	(11,843,666)	-	(868,769)	(2,857,511)	(9,854,924)
Vehicles	(12,432,472)	-	(12,432,472)	-	(893,068)	(115,226)	(13,210,314)
Infrastructure	(143,124,025)	-	(143,124,025)	-	(5,669,283)	-	(148,793,308)
Total accumulated depreciation	(262,364,701)	-	(262,364,701)	-	(12,896,791)	(9,574,373)	(265,687,119)
Total capital assets, being depreciated, net	199,740,766	23,754	199,764,520	6,529,051	267,563	214,634	206,346,500
Governmental activities capital assets, net	\$ 256,745,863	\$ 23,754	\$ 256,769,617	\$ (649,472)	\$ 6,731,341	\$ 214,634	\$ 262,636,852

Depreciation expense was charged in the following functions in the Statement of Activities:

General government	\$ 664,389
Cultural and convention center	3,036,097
Public safety	1,344,172
Public works	5,845,119
Parks and recreation	426,472
Library	145,096
Internal Service	1,435,446
Total depreciation	<u>\$ 12,896,791</u>

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 4: Capital Assets (Continued)

<u>Business-type Activities</u>	Beginning Balance	Adjustments	Adjusted Beginning Balance	Transfers	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:							
Land	\$ 36,737,609	\$ -	\$ 36,737,609	\$ 649,472	\$ -	\$ -	\$ 37,387,081
Construction in progress	-	1,546,788	1,546,788	-	298,997	-	1,845,785
Total capital assets, not being depreciated	<u>36,737,609</u>	<u>1,546,788</u>	<u>38,284,397</u>	<u>649,472</u>	<u>298,997</u>	<u>-</u>	<u>39,232,866</u>
Capital assets, being depreciated:							
Buildings	59,802,172	-	59,802,172	-	16,231,720	1,138,904	74,894,988
Improvements	210,629,004	-	210,629,004	-	3,325,416	1,087,899	212,866,521
Machinery and equipment	4,923,676	-	4,923,676	-	1,044,144	1,082,771	4,885,049
Motor vehicles	3,934,935	-	3,934,935	-	63,011	92,560	3,905,386
Subsurface lines	27,387,700	-	27,387,700	-	-	-	27,387,700
Total capital assets, being depreciated	<u>306,677,487</u>	<u>-</u>	<u>306,677,487</u>	<u>-</u>	<u>20,664,291</u>	<u>3,402,134</u>	<u>323,939,644</u>
Less accumulated depreciation for:							
Buildings	(33,479,306)	-	(33,479,306)	-	(1,065,983)	(1,138,904)	(33,406,385)
Improvements	(161,313,552)	-	(161,313,552)	-	(6,914,797)	(962,441)	(167,265,908)
Machinery and equipment	(3,466,573)	90	(3,466,483)	-	(342,688)	(953,560)	(2,855,611)
Motor vehicles	(2,237,619)	(90)	(2,237,709)	-	(177,037)	(92,560)	(2,322,186)
Subsurface lines	(20,771,287)	-	(20,771,287)	-	(547,754)	-	(21,319,041)
Total accumulated depreciation	<u>(221,268,337)</u>	<u>-</u>	<u>(221,268,337)</u>	<u>-</u>	<u>(9,048,259)</u>	<u>(3,147,465)</u>	<u>(227,169,131)</u>
Total capital assets, being depreciated, net	<u>85,409,150</u>	<u>-</u>	<u>85,409,150</u>	<u>-</u>	<u>11,616,032</u>	<u>254,669</u>	<u>96,770,513</u>
Business-type activities capital assets, net	<u>\$ 122,146,759</u>	<u>\$ 1,546,788</u>	<u>\$ 123,693,547</u>	<u>\$ 649,472</u>	<u>\$ 11,915,029</u>	<u>\$ 254,669</u>	<u>\$ 136,003,379</u>

Depreciation expense was charged in the following programs of the primary government:

Airport	\$ 6,851,969
Wastewater	2,077,211
Golf course	119,079
Total depreciation	<u>\$ 9,048,259</u>

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2018, (including unamortized discounts and refunding costs) are as follows:

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences payable	\$ 6,796,378	\$ 4,218,189	\$ 4,631,930	\$ 6,382,637	\$ 2,351,928
Claims and judgments payable	9,546,244	3,308,681	3,455,207	9,399,718	3,540,646
Special assessment debt	5,855,000	-	380,000	5,475,000	385,000
Capital lease - OshKosh	124,051	-	124,051	-	-
Capital lease - Motorola	792,558	-	387,843	404,715	404,715
Capital lease - Fire Trucks	-	3,270,628	180,775	3,089,853	185,515
Capital lease - Police Interceptor Vehicles	-	766,431	164,493	601,938	140,846
Notes payable:					
Capital One Public Financing - Chevron	17,444,632	-	413,605	17,031,027	467,677
Chino Cinega Foundation Note Payable	236,622	-	73,962	162,660	78,770
Bonds Payable, net:					
2012A Lease Revenue Bonds	17,835,000	-	1,280,000	16,555,000	1,370,000
2007 Pension Obligation Bonds	20,247,941	313,617	550,000	20,011,558	605,000
2012B Measure J Lease Revenue Bonds	38,575,000	-	1,445,000	37,130,000	1,500,000
2014 Lease Revenue Bonds	43,060,000	-	760,000	42,300,000	750,000
2015 Measure A Sales Tax Revenue Bonds	4,475,000	-	930,000	3,545,000	950,000
2015 Lease Revenue Bonds	5,555,000	-	295,000	5,260,000	340,000
2017 Lease Revenue Refunding Bonds	3,015,990	-	270,743	2,745,247	263,181
Unamortized Premiums/(Discounts)					
Special Assessment Debt	(52,210)	-	(3,868)	(48,342)	-
2012A Lease Revenue Bonds	268,614	-	60,820	207,794	-
2014 Lease Revenue Bonds	4,391,309	-	225,196	4,166,113	-
2012B Measure J	1,162,936	-	72,248	1,090,688	-
2015 Measure A	382,347	-	76,470	305,877	-
2015 Lease Revenue Bonds	860,757	-	87,502	773,255	-
2017 Lease Revenue Refunding Bonds	283,456	-	28,346	255,110	-
Total governmental long-term liabilities, net	<u>\$ 180,856,625</u>	<u>\$ 11,877,546</u>	<u>\$ 15,889,323</u>	<u>\$ 176,844,848</u>	<u>\$ 13,333,278</u>
Business-Type Activities	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences payable	\$ 773,180	\$ 518,851	\$ 481,700	\$ 810,331	\$ 810,331
State Water Resource Board	-	14,354,637	-	14,354,637	-
TCF Capital Equipment	-	1,014,725	370,396	644,329	126,935
	-	15,369,362	370,396	14,998,966	126,935
Airport Revenue Bonds:					
1998 Airport PFC Revenue Bonds	2,425,000	-	1,685,000	740,000	505,000
2006 Airport PFC Revenue Bonds	6,615,000	-	765,000	5,850,000	530,000
2008 Airport PFC Revenue Bonds	4,155,000	-	485,000	3,670,000	345,000
Unamortized discount	(368,151)	-	(37,811)	(330,340)	-
Airport Revenue Bonds, net	12,826,849	-	2,897,189	9,929,660	1,380,000
Lease Revenue Bonds					
2017 Lease Revenue Refunding Bonds	6,954,010	-	624,257	6,329,753	606,819
Unamortized premium	653,662	-	65,366	588,296	-
Lease Revenue Bonds, net	7,607,672	-	689,623	6,918,049	606,819
Total business-type long-term liabilities, net	<u>\$ 21,207,701</u>	<u>\$ 15,888,213</u>	<u>\$ 4,438,908</u>	<u>\$ 32,657,006</u>	<u>\$ 2,924,085</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

Special Assessment Debt with Government Commitment

At June 30, 2018, the City of Palm Springs has one outstanding Assessment District (A.D.) Improvement Refunding Bond ("Bonds") originally issued in the amount of \$6,645,000 pursuant to the Improvement Bond Act of 1915. The proceeds of the Bond were used to refund outstanding obligations of the City of Palm Springs with respect to its Assessment District No. 161, Assessment District No. 162 and Assessment District No 164, to pay costs related to the issuance of the bonds and make a deposit to a Reserve Fund for the Bonds.

A.D. 2015-1

\$6,645,000 bonds issued April 1, 2015, bonds mature between September 2, 2016 and September 2, 2030 in amounts ranging from \$210,000 through \$520,000, bonds maturing on any September 2 may be redeemed prior to its fixed maturity date, at the option of the City, at rates ranging from 100% to 103% of the principal amount. The balance of this bond at June 30, 2018 is \$5,475,000 with an unamortized discount of \$(48,342).

Annual requirements to amortize outstanding special assessment debt as of June 30, 2018, are as follows:

June 30	A.D. 2015-1	
	Principal	Interest
2019	\$ 385,000	\$ 157,213
2020	385,000	149,513
2021	395,000	141,713
2022	405,000	132,700
2023	415,000	121,413
2024-2028	2,265,000	404,731
2029-2032	1,225,000	54,994
Total	\$ 5,475,000	\$ 1,162,277

Capital Lease Obligations

Fire Vehicles Lease (OshKosh #2)

In 2008, the City entered into a lease agreement for the financing of the acquisition of two Pierce Quantum fire apparatus. This lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The vehicles were acquired under this lease agreement are recorded in the Motor Vehicle Replacement Fund, as motor vehicles for total cost of \$993,592.

The financing was obtained from OshKosh Capital, for \$913,648 with an interest rate of 5.38% and annual payments of \$124,051 through the end of the lease (October 2017). At June 30, 2018, the lease has been paid in full.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

Motorola Communications Equipment

In December 2008, the City entered into a lease agreement for the financing of the acquisition of Motorola communications equipment. This lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The total cost of the equipment acquired under the lease agreement was \$3,366,478.

The financing was obtained from Municipal Finance Corporation in December 2008, for \$3,366,478 with an interest rate of 4.35% and annual payments of \$422,319 through the end of the lease (December 2018). The outstanding balance at June 30, 2018, is \$404,715.

The calculation of the present value of the future lease payments is as follows:

Year Ending June 30	
2019	\$ 422,319
Subtotal	422,319
Less: Amount representing interest	(17,604)
Total	<u>\$ 404,715</u>

Fire Trucks

In September 2017, the City acquired three fire trucks under a 15 years capital lease agreement with PNC Equipment Finance, LLC for \$3,270,628 with annual payments of \$266,539 due October of each year through 2031. The capital assets have been recorded at the present value of the future minimum lease payments as of the date of inception. The outstanding balance at June 30, 2018, is \$3,089,853.

The calculation of the present value of the future lease payments is as follows:

Year Ending June 30	
2019	\$ 266,539
2020	266,539
2021	266,539
2022	266,539
2023	266,539
2024-2029	1,332,695
2029- 2032	<u>1,066,156</u>
Subtotal	3,731,546
Less: Amount representing interest	(641,693)
Total	<u>\$ 3,089,853</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)**Police Interceptor Vehicles**

In November 2017, the City entered into a 5 years capital lease agreement for the purchase of 19 Police Interceptor Utility vehicles. The financing was obtained from National Cooperative Leasing for \$766,431 at a 4.43% annual interest rate. The capital assets have been recorded at the present value of future minimum lease payments as of the date of inception. Annual payments in the amount of \$167,511 are due on January 1 of each year through 2022. The outstanding balance at June 30, 2018, is \$601,938.

The calculation of the present value of the future lease payments is as follows:

Year Ending June 30	
2019	\$ 167,511
2020	167,511
2021	167,511
2022	167,511
Subtotal	670,044
Less: Amount representing interest	(68,106)
Total	<u>\$ 601,938</u>

TCF Capital Equipment Lease

In December 2017, the City entered into a 5 years capital lease agreement for the purchase of maintenance equipment for the Tahquitz Creek Golf Course. The financing was obtained from TCF Equipment Finance, a Division of TCF National Bank, in the amount of \$1,014,725 at a 4.50% annual interest rate with monthly payments of \$12,778. The capital assets have been recorded at the present value of future minimum lease payments as of the date of inception. The outstanding balance at June 30, 2018, is \$644,329.

The calculation of the present value of the future lease payments is as follows:

Year Ending June 30	
2019	\$ 153,333
2020	153,333
2021	153,333
2022	153,333
2023	102,221
Subtotal	715,553
Less: Amount representing interest	(71,224)
Total	<u>\$ 644,329</u>

CITY OF PALM SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Note 5: Long-Term Liabilities (Continued)

Notes Payable

Capital One Public Financing

The City entered into an agreement with Chevron Energy Solutions Co., in July 2013, for the amount of \$18,402,793 for the purpose of financing the energy conservation measures project. The equipment portion of the agreement of \$6,000,000 matures on August 1, 2029 and has an annual interest rate at 3.34% annum. The property and land portion of the project matures on August 1, 2033 and has an interest rate at 4.2% annum. The outstanding balance at June 30, 2018, is \$17,031,027.

Chino Cinega Foundation

To purchase property, the City entered into an agreement on September 10, 2012 with the Chino Cinega Foundation to borrow \$490,000. The note accrues interest at 6.5% per annum. Annual payments of \$89,342 are required through 2019 and a final payment of \$83,890 is required for 2020. The outstanding balance at June 30, 2018, is \$162,660.

Annual requirements to amortize outstanding notes payable as of June 30, 2018, is as follows:

Year Ending June 30	Capital One Note		Chino Cinega Note		Total
	Principal	Interest	Principal	Interest	
2019	\$ 467,677	\$ 664,052	\$ 78,770	\$ 10,573	\$ 1,221,072
2020	525,387	646,262	83,890	5,453	1,260,992
2021	586,694	626,234	-	-	1,212,928
2022	651,015	603,839	-	-	1,254,854
2023	719,690	578,941	-	-	1,298,631
2024-2028	4,795,624	2,421,639	-	-	7,217,263
2029-2033	7,377,444	1,262,120	-	-	8,639,564
2034-2035	1,907,496	20,029	-	-	1,927,525
	<u>\$ 17,031,027</u>	<u>\$ 6,823,116</u>	<u>\$ 162,660</u>	<u>\$ 16,026</u>	<u>\$ 24,032,829</u>

Loans Payable

State Water Resources Control Board

The City entered in a \$14,354,637 installment sale agreement with the California State Water Resources Control Board to finance the costs of constructing and/or reconstructing certain public facilities and improvements relating to the City's wastewater system, including certain treatment facilities, pipelines and other infrastructure. The term of the loan is 30 years with an annual interest rate of 1.70%. Annual payments of \$618,600 are due starting September 2019 through 2048. The outstanding balance at June 30, 2018, is \$14,354,637.

CITY OF PALM SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Note 5: Long-Term Liabilities (Continued)

Annual requirements to amortize outstanding loans payable as of June 30, 2018, is as follows:

June 30	State Water Resources Control Board	
	Principal	Interest
2019	\$ -	\$ -
2020	373,062	245,538
2021	379,404	239,196
2022	385,854	232,746
2023	392,414	226,186
2024-2028	2,064,431	1,028,568
2029-2033	2,245,976	847,023
2034-2038	2,443,486	649,513
2039-2043	2,658,365	434,634
2044-2048	2,803,386	200,859
2049	608,259	10,340
Total	<u>\$ 14,354,637</u>	<u>\$ 4,114,603</u>

Bonds Payable:

2012 A Convention Center Lease Revenue Bonds

On February 1, 2012, the City of Palm Springs Financing Authority issued \$23,980,000 Lease Revenue Bonds, Series A to provide funds for the current refunding of the Lease Revenue Bonds, 2001 Series A. The bonds are payable from the revenues pledged under the Indenture of Trust, consisting primarily of lease payments by the City of Palm Springs to the Authority as rental for the City Convention Center and from certain funds held under the Indenture of Trust and insurance or condemnation awards.

The bonds accrue interest at rates between 2.00% and 5.00%. The principal amounts mature between November 1, 2012 and November 1, 2025, ranging from \$500,000 to \$2,865,000. The required reserve for the 2004A and 2012A Convention Center Lease Revenue Bonds is \$5,646,097. At June 30, 2018, the reserve fund was fully funded. The amount of bonds outstanding at June 30, 2018, is \$16,555,000 with unamortized premium of \$207,794.

2014 A Convention Center Lease Revenue Bonds

On July 24, 2014, the City of Palm Springs Financing Authority issued \$45,550,000 Lease Revenue Bonds, Series A to provide funds for the current refunding of the Lease Revenue Bonds, 2004. The bonds are payable from the revenues pledged under the Indenture of Trust, consisting primarily of lease payments by the City of Palm Springs to the Authority as rental for the City Convention Center and from certain funds held under the Indenture of Trust and insurance or condemnation awards.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

The bonds accrue interest at rates between 3.50% and 5.00%. The principal amounts mature between November 1, 2014 and August 1, 2035, ranging from \$650,000 to \$4,825,000. The required reserve for the 2014A Convention Center Lease Revenue Bonds is \$5,005,938. At June 30, 2018, the reserve fund was fully funded. The amount of bonds outstanding at June 30, 2018, is \$42,300,000 with unamortized premium of \$4,166,113.

The City reduced the aggregate debt service payments by \$22,528,329 over the remaining maturity period of the 2014 A Convention Center Lease Revenue Bonds to obtain an economic gain of \$17,974,052 (difference between the present values of the debt service payments on the old and new debt).

The total convention center bonds outstanding at June 30, 2018, were \$58,855,000.

The bond refunding has deferred refunding charges of \$2,342,719 at June 30, 2018.

Future requirements to amortize outstanding convention center bonds as of June 30, 2018, are as follows:

June 30	2012 Convention Center Lease Revenue Bonds		2014 Convention Center Lease Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest
2019	\$ 1,370,000	\$ 581,413	\$ 750,000	\$ 1,985,231
2020	1,420,000	539,563	780,000	1,946,981
2021	1,460,000	496,363	825,000	1,906,856
2022	1,505,000	446,888	870,000	1,864,481
2023	2,550,000	370,500	-	1,842,731
2024-2028	8,250,000	539,819	6,365,000	8,932,781
2029-2033	-	-	18,975,000	5,458,031
2034-2037	-	-	13,735,000	920,053
Total	\$ 16,555,000	\$ 2,974,546	\$ 42,300,000	\$ 24,857,145

2017 Lease Revenue Refunding Bonds

On June 13, 2017, the City of Palm Springs Financing Authority issued \$9,970,000 Lease Revenue Refunding Bonds, Series 2017 to defease the outstanding balance of the Refunding Lease Revenue Bonds, Series 2007. The Lease Revenue Refunding Bonds, Series 2017 accrues interest payable semiannually on November 1 and May 1 of each year at rates between 2.00% and 4.00%. Principal is due annually on May 1 of each year ranging from \$895,000 to \$1,160,000 and the final maturity date is May 1, 2027.

The City reduced the aggregate debt service payments by \$1,436,326 over the remaining maturity period of the 2017 Lease Revenue Refunding Bonds to obtain an economic gain of \$1,324,695 (difference between the present values of the debt service payments on the old and new debt).

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

The activities associated with the police building project and cogeneration plant are governmental activities and the activities of the golf course are business-type activities. The outstanding balance on the 2017 Lease Revenue Refunding Bonds at June 30, 2018, are reflected in the accompanying financial statements as follows:

	Balance at June 30, 2018
Governmental activities:	
Police building project & master lease	\$ 1,019,636
Cogeneration plant fund	1,725,611
	<u>2,745,247</u>
Unamortized premium	255,110
	<u>255,110</u>
Total governmental activities	<u>\$ 3,000,357</u>
Business-type activities	
Golf Course fund	\$ 6,329,753
Unamortized premium	588,296
	<u>588,296</u>
Total business-type activities	<u>\$ 6,918,049</u>

The bond refunding has deferred refunding charges of \$118,159 at June 30, 2018 and is reflected in the accompanying financial statements as follows:

	Balance at June 30, 2018
Governmental activities:	
Police building project & master lease	\$ 12,281
Cogeneration plant fund	40,631
	<u>40,631</u>
Total governmental activities	<u>\$ 52,912</u>
Business-type activities	
Golf Course fund	\$ 65,247
	<u>65,247</u>
Total business-type activities	<u>\$ 65,247</u>

CITY OF PALM SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Note 5: Long-Term Liabilities (Continued)

Future requirements to amortize outstanding 2017 Lease Revenue Refunding Bonds as of June 30, 2018, are as follows:

June 30	2017 Refunding Lease Revenue Bonds	
	Principal	Interest
2019	\$ 870,000	\$ 332,549
2020	905,000	297,750
2021	940,000	261,550
2022	980,000	223,950
2023	1,015,000	184,750
2024-2027	4,365,000	445,600
Total	<u>\$ 9,075,000</u>	<u>\$ 1,746,149</u>

2015 Local Measure A Sales Tax Revenue Bonds

On July 24, 2014, the City of Palm Springs Public Financing Authority issued \$6,245,000 Lease Revenue Series A Refunding Bonds. The proceeds from the issuance were used to refund a portion of the Lease Revenue Bonds, 2004 series, which were used to fund capital projects related to the expansion of the convention center project. Interest on the bonds range between 2.0% to 5.0% and the final maturity date is June 1, 2022.

The total Sales Tax Revenue bonds outstanding at June 30, 2018, is \$3,545,000 including \$305,877 of unamortized premium.

Fiscal Year June 30	Principal	Interest
2019	\$ 950,000	\$ 147,950
2019	990,000	109,950
2020	1,015,000	80,250
2021	590,000	29,500
Totals	<u>\$ 3,545,000</u>	<u>\$ 367,650</u>

2012 Lease Revenue Refunding Bonds, Series B

On June 6, 2012, the City of Palm Springs Financing Authority issued \$44,965,000 Lease Revenue Bonds, Series B to provide funds for the financing and acquisition and construction of public improvements. The bonds are payable from the revenues pledged under the Indenture of Trust, consisting primarily of lease payments to be paid by the City of Palm Springs to the Authority as rental for certain City owned property and from certain funds held under the Indenture of Trust and insurance or condemnation awards.

The bonds accrue interest at rates between 2.00% and 5.25%. The principal amounts mature between June 1, 2013 and June 1, 2035, ranging from \$1,135,000 to \$3,050,000.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

The total Lease Revenue bonds outstanding at June 30, 2018, is \$37,130,000 including \$1,090,688 of unamortized premium.

Fiscal Year June 30	Principal	Interest
2019	\$ 1,500,000	\$ 1,683,763
2020	1,560,000	1,623,763
2021	1,625,000	1,561,363
2022	1,690,000	1,496,363
2023	1,755,000	1,428,763
2024-2028	10,225,000	5,704,489
2029-2033	12,810,000	3,125,825
2034-2036	5,965,000	408,038
Totals	<u>\$ 37,130,000</u>	<u>\$ 17,032,367</u>

2015 Lease Revenue Refunding Bonds

On December 1, 2015, the City of Palm Springs Public Financing Authority issued \$5,680,000 Lease Revenue Refunding Bonds. The proceeds from the issuance were used to refund the 2002A Certificates of Participation, which were used to fund capital projects related to the downtown parking structure. Interest on the bonds range between 2.0% to 5.0% and the final maturity date is November 1, 2027.

The total bonds outstanding at June 30, 2018, is \$5,260,000 including \$773,255 of unamortized premium.

Fiscal Year June 30	Principal	Interest
2019	\$ 340,000	\$ 249,150
2020	365,000	235,050
2021	425,000	217,125
2022	455,000	195,125
2023	485,000	171,625
2024-2028	3,190,000	417,750
Totals	<u>\$ 5,260,000</u>	<u>\$ 1,485,825</u>

2007 Taxable Pension Obligation Bonds

On April 1, 2007, the City of Palm Springs pursuant to an Agreement with the California Statewide Communities Development Authority issued \$19,832,588 of Pension Obligation Bonds. The aggregate total amount of the bonds for all agencies was \$87,475,699 which includes \$65,140,000 of Series A-1 current interest and \$22,335,699 of Series A-2 capital appreciation bonds. The issuance of the bonds provided monies to meet the City's obligation to pay the City's unfunded accrued actuarial liability ("UAAL") to the California Public Employees Retirement System ("PERS"). The City's obligation includes the requirement to amortize the unfunded accrued liability over a multi-year period. On April 1, 2007, the City contributed \$19,382,434 of the bond proceeds to PERS to fund a portion of the unfunded liability for the Miscellaneous and Safety Plans that provides retirement benefits to the City employees and public safety officers.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

Interest on Series A-1 Current Interest Bonds of \$14,790,000, is payable on June 1 and December 1, commencing December 1, 2007. The rate of interest varies from 5.37% to 5.56% per annum. Principal is payable in annual installments ranging from \$605,000 to \$2,430,000 commencing on June 1, 2019 and ending on June 1, 2035.

Optional Redemption: The Series A-1 Current Interest Bonds maturing on or before June 1, 2017 will not be subject to optional redemption. The bonds maturing on June 2, 2021, June 1, 2026 and June 1, 2035, are subject to optional redemption prior to maturity at the option of the Authority, or in part on any date at a redemption price equal to the greater of (1) 100% of principal to be redeemed or (2) present value of the remaining debt service discounted at Treasury Rate plus 12.5 basis points, plus accrued and unpaid interest on the Redeemable Term Bonds being redeemed to the date fixed for redemption.

The balance outstanding as of June 30, 2018, was \$20,011,558 including accreted interest of \$2,420,873.

Year Ending June 30	Series A-1		Series A-2	
	Principal	Interest	Principal	Interest
2019	\$ 605,000	\$ 814,648	\$ -	\$ -
2020	695,000	782,159	-	-
2021	790,000	744,838	-	-
2022	-	702,415	712,196	-
2023	675,000	702,415	211,814	-
2024-2028	3,530,000	2,760,216	1,744,165	-
2029-2033	3,850,000	2,257,146	2,553,383	-
2034-2036	4,645,000	392,946	-	-
Total	\$ 14,790,000	\$ 9,156,783	\$ 5,221,558	\$ -

1998 Airport Passenger Facility Charge Revenue Bonds

On June 1, 1998, the Authority issued \$12,720,000 Airport Passenger Facility Charge Revenue Bonds, Series 1998 (1998 PFC Bonds) to provide funds to finance improvements to the airport. These bonds were issued simultaneously with the 1998 Airport Revenue Bonds which were also issued to finance improvements to the airport.

The Bonds consist of \$3,640,000 of serial bonds and \$9,080,000 of term bonds. The serial bonds accrue interest at rates between 4.25% and 5.10% and mature between January 1, 2001 and January 1, 2012, ranging from \$145,000 to \$355,000.

The first portion of term bonds with principal of \$2,550,000 accrue interest at 5.125% and mature on January 1, 2018. The second portion of term bonds with principal of \$2,200,000 accrue interest at a rate of 5.25% and mature on January 1, 2022. The third portion of term bonds with principal of \$4,330,000 accrue interest at a rate of 5.50% and mature on January 1, 2028.

Note 5: Long-Term Liabilities (Continued)

Bonds maturing on January 1, 2018, January 1, 2022, and January 1, 2028, are subject to mandatory redemption, in part by lot, on January 1 in each year commencing January 1, 2013, with respect to bonds maturing January 1, 2018, commencing January 1, 2019, with respect to bonds maturing January 1, 2022, and commencing January 1, 2023, with respect to bonds maturing January 1, 2028, from mandatory sinking account payments at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption in the aggregate respective principal amounts and on January 1 in the respective years; provided, however, that (i) in lieu of redemption thereof, the bonds may be purchased pursuant to the provisions of the Indenture, and (ii) if some but not all of the bonds have been redeemed pursuant to the optional or special redemption provisions, the total amount of sinking accounts payments to be made subsequent to such redemption will be reduced in an amount equal to the principal amount of the bonds so redeemed, by reducing each such future sinking account payment in integral multiples of \$5,000, in a manner designated by the Authority, in the case of an optional redemption, or in inverse order, in the case of a special redemption.

The bonds maturing January 1, 2028 are subject to special mandatory redemption, in part by lot each January 1 from certain excess revenues at a redemption price equal to the principal amount thereof to be redeemed, plus a premium, together with accrued interest thereon to the date fixed for redemption. The redemption price relating to redemption dates January 1, 1999 to January 1, 2007 is 103%; January 1, 2008 is 102%; January 1, 2009 is 101%; and January 1, 2010 and thereafter is 100%.

The required reserve for the 1998 Airport Passenger Facility Charge Revenue Bonds is \$497,436. At June 30, 2018, the reserve fund was fully funded. The amount of bonds outstanding at June 30, 2018, is \$740,000. The bonds had \$79,660 of unamortized discount.

A special redemption was made on July 1, 2017, with the redemption price at 100% for the amount of \$1,205,000.

2006 Airport Passenger Facility Charge Revenue Bonds

On April 19, 2006, the City issued \$12,115,000 Airport Passenger Facility Charge Revenue Bonds, Series 2006 (2006 PFC Bonds) to refund in its entirety the City of Palm Springs Financing Authority Airport Revenue Bonds, 1992 Series, issued in 1992 to finance certain improvements to the airport.

The bonds consist of \$3,865,000 of serial bonds and \$8,250,000 of term bonds. The serial bonds accrue interest at rates between 4.40% and 5.40% and mature between July 1, 2007 and July 1, 2016, in amounts ranging from \$310,000 to \$480,000.

The first portion of term bonds with principal of \$2,185,000 accrue interest at 5.45% and mature on July 1, 2020. The second portion of term bonds with principal of \$6,065,000 accrue interest at a rate of 5.55% and mature on July 1, 2028.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

Bonds maturing on July 1, 2028, are subject to mandatory redemption, in part by lot, on July 1 of each year commencing July 1, 2007, from certain excess PFC Revenues at a redemption price equal to the principal amount thereof to be redeemed, plus a premium and accrued interest thereon to the date fixed for redemption as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
Each July 1 prior to July 1, 2014	103%
July 1, 2014	102%
July 1, 2015	101%
July 1, 2016 and thereafter	100%

The bonds are subject to special mandatory redemption, in whole, on any date as a result of actions taken by the Federal Aviation Administration (FAA) to reduce the City's authority to collect passenger facility charges under the special agreement with the FAA from proceeds of refunding obligations of from any available funds of the Airport at a redemption price equal to the principal amount thereof together with accrued interest thereon to the date fixed for redemption.

Bonds maturing on or after July 1, 2015, are subject to redemption prior to maturity on any date on or after July 1, 2014, in whole or in part, in a manner determined by the City, from prepayments made at the option of the City pursuant to the at a redemption price equal to the principal amount thereof to be redeemed, plus a premium and accrued interest thereon to the date fixed for redemption as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
July 1, 2014 through June 30, 2015	102%
July 1, 2015 through June 30, 2016	101%
July 1, 2016 and thereafter	100%

A special redemption was made on July 1, 2017, with the redemption price at 100% for the amount of \$260,000.

The required reserve for the 2006 Airport Passenger Facility Charge Revenue Bonds is \$961,610. At June 30, 2018, the reserve fund was fully funded. The amount of bonds outstanding at June 30, 2018, is \$5,850,000. The bonds had \$100,954 of unamortized discount and \$305,058 deferred refunding charges.

2008 Airport Passenger Facility Charge Revenue Bonds

On May 14, 2008, the City issued \$6,895,000 Airport Passenger Facility Charge Revenue Bonds, to refund in their entirety the remaining \$7,125,000 of the Authority Airport Revenue Bonds, Series 1998 (1998 GAR Bonds), issued to finance improvements to the Airport.

The bonds consist of \$6,895,000 of term bonds. The first portion of term bonds with principal of \$1,145,000 accrues interest at 5.30% and matures on July 1, 2013. The second portion of term bonds with principal of \$1,540,000 accrues interest of 6.00% and matures on July 1, 2018. The third portion of term bonds with principal of \$2,050,000 accrues interest at 6.40% and matures on July 1, 2023. The fourth portion of the term bonds with principal of \$2,160,000 accrues interest of 6.50% and matures on July 1, 2027.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 5: Long-Term Liabilities (Continued)

The Bonds are subject to special mandatory redemption, in part by lot each July 1, beginning July 1, 2009, from certain excess PFC Revenues, defined herein as "Remaining Revenues", in inverse order of maturity, pro-rata with the 2006 PFC Bonds, at a redemption price equal to the principal amount thereof to be redeemed, plus a premium together with accrued interest thereon to the date fixed for redemption as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
Each July 1 prior to July 1, 2014	103%
July 1, 2014	102%
July 1, 2015	101%
July 1, 2016 and each July 1 thereafter	100%

The Bonds maturing on or after July 1, 2018, are subject to redemption prior to maturity on any date on or after July 1, 2014, in whole or in part, in a manner determined by the City, from prepayments made at the option of the City pursuant to the Indenture at a redemption price equal to the principal amount thereof to be redeemed, plus a premium, together with accrued interest thereon to the date fixed for redemption as follows:

A special redemption was made on July 1, 2017, with the redemption price at 100% for the amount of \$160,000.

<u>Redemption Dates</u>	<u>Redemption Prices</u>
July 1, 2014 through June 30, 2015	102%
July 1, 2015 through June 30, 2016	101%
July 1, 2016 and thereafter	100%

The required reserve for the 2008 Airport Passenger Facility Charge Revenue Bonds is \$644,000. At June 30, 2018, the reserve fund was fully funded. The amount of bonds outstanding at June 30, 2018, is \$3,670,000, including \$149,726 unamortized discount and \$133,522 deferred refunding charges.

Future requirements to amortize outstanding business-type bonds payable (excluding \$330,340 of unamortized discounts and \$438,580 of deferred refunding charges) as of June 30, 2018, are as follows:

Fiscal Year Ending June 30	1998 PFC Airport Bonds		2006 PFC Airport Bonds		2008 PFC Airport Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 505,000	\$ 38,850	\$ 530,000	\$ 308,553	\$ 345,000	\$ 224,425
2020	235,000	12,338	560,000	278,850	365,000	202,395
2021	-	-	590,000	247,513	385,000	178,395
2022	-	-	625,000	214,091	405,000	153,115
2023	-	-	655,000	178,571	435,000	126,235
2024-2028	-	-	2,890,000	321,623	1,735,000	206,633
Total	<u>\$ 740,000</u>	<u>\$ 51,188</u>	<u>\$ 5,850,000</u>	<u>\$ 1,549,201</u>	<u>\$ 3,670,000</u>	<u>\$ 1,091,198</u>

CITY OF PALM SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Note 5: Long-Term Liabilities (Continued)

Pledged Revenues

The PFC Bonds are payable from the revenues pledged under the Indenture consisting primarily of installment payments to be made by the City of Palm Springs. The City's obligation to make installment payments is payable solely from Passenger Facilities Charges ("PFC Revenues") imposed by the City under the authority of its Federal Aviation Act and regulation. As of June 30, 2018, principal and interest remaining on the PFC bonds was \$12,990,516. For the current year, principal and interest paid and total PFC revenues were \$3,657,870 and \$4,461,204 respectively.

Compensated Absences

This liability represents the total unpaid vacation and compensation time earned by employees of the City. For governmental activities, the liability will be paid from its general fund. For proprietary activities, the liability will be paid from the fund which reports the liability.

Note 6: Claims and Judgments

The City is exposed to various risks of loss related to its operation, including losses associated with errors and omissions, injuries to employees and members of the public. The City's Internal Service Risk Management Fund is used to account for and finance uninsured risks of loss. The City purchases coverage for general liability claims through its participation in the Municipal Insurance Cooperative (MIC), which is a Joint Powers Authority developed to facilitate the joint purchase of coverages and services. MIC does not constitute insurance, but instead has created its own Memorandum of Coverage that is reinsured through Great American. MIC covers claims in excess of the City's retention of \$1,000,000 for Law Enforcement and Auto Liability, and \$650,000 retention applies to all other claims, up to the per occurrence limit of \$10,000,000.

The City of Palm Springs purchases commercial workers' compensation insurance from Safety National Casualty Corporation. Under this policy, employers recover claims in excess of the City's self-insured retention of \$1,000,000 and provides employer's liability coverage up to \$50,000,000 in addition to workers' compensation statutory limits.

The claims and judgments liability reported in the Internal Service Risk Management Fund is based on the requirements of Governmental Accounting Standards Board Statements No. 10 and 30, which requires that a liability for claims and judgments be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. As of June 30, 2018, claims and judgments payable, including estimated claims for incurred but not reported claims, amounted to \$9,399,718 of which \$3,540,046 represents the current portion.

During the past three fiscal (claims) years, none of the above programs of protection have had any settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage in the prior year.

Changes in the claims and judgments payable amounts in fiscal years ended June 30, 2017 and 2018, for the Risk Management Fund are as follows:

Fiscal Year Ending	Beginning of Fiscal Year Liability	Current Year Claims and Change in Estimates	Claims Payments	Balance at Fiscal Year End
2016-2017	\$ 9,776,479	\$ 2,959,444	\$ (3,189,679)	\$ 9,546,244
2017-2018	9,546,244	67 3,308,681	(3,455,207)	9,399,718

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 7: Defined Benefit Pension Plan (PERS)

General Information about the Pension Plans

Plan Description, Benefits Provided and Employees Covered

The City of Palm Springs contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from its executive office: 400 P Street, Sacramento, California 95814.

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.

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

	Miscellaneous Plan		
	Classic *	Tier 2 *	PEPRA
Hire date	Prior to January 1, 2013	Prior to January 1, 2013	After January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	minimum 50 yrs	minimum 50 yrs	minimum 52 yrs
Monthly benefits, as a % of eligible compensation	2.000% - 2.700%, 50 yrs - 55+ yrs, respectively	2.000% - 2.700%, 50 yrs - 55+ yrs, respectively	1.000% - 2.500% 52 yrs - 67+ yrs, Respectively
Required employee contribution rates	8.000%	7.000%	6.750%
Required employer contribution rates	28.140%	28.140%	28.140%
	Safety Plan		
	Classic *	Tier 2 *	PEPRA
Hire date	Prior to January 1, 2013	Prior to January 1, 2013	After January 1, 2013
Benefit formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	minimum 50 yrs	minimum 50 yrs	minimum 52 yrs
Monthly benefits, as a % of eligible compensation	3.000%, 50+ yrs	2.400% - 3.000%, 50 yrs - 55+ yrs Respectively	2.000%, 2.700%, 50yrs - 57+ yrs Respectively
Required employee contribution rates	9.000%	9.000%	11.500%
Required employer contribution rates	49.418%	49.418%	49.418%

* Closed to new entrants.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 7: Defined Benefit Pension Plan (PERS) (Continued)***Employees Covered***

At June 30, 2018, the following employees were covered by the benefit terms of the Plan:

<u>Description</u>	<u>Number of members</u>	
	<u>Miscellaneous</u>	<u>Safety</u>
Active members	287	149
Transferred members	111	31
Terminated members	65	27
Retired members and beneficiaries	65	34
Total	528	241

Contribution Description

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

For the year ended June 30, 2018, the employer contributions recognized as a reduction to the net pension liability for the Miscellaneous and Safety Plan were \$4,850,087 and \$7,112,083 respectively.

Net Pension Liability

The City's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2017 using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard updated procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2016 valuation was rolled forward to determine the June 30, 2017 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

Note 7: Defined Benefit Pension Plan (PERS) (Continued)

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

Change of Assumptions

In 2017, the accounting discount rate was reduced from 7.65% to 7.15%.

Discount Rate

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

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 7: Defined Benefit Pension Plan (PERS) (Continued)

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11+ (2)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0	0.80	2.27
Inflation Sensitive	6.0	0.60	1.39
Private Equity	12.0	6.60	6.63
Real Estate	11.0	2.80	5.21
Infrastructure and Forestland	2.0	3.90	5.36
Liquidity	2.0	-0.40	-0.90

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

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

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period for the Miscellaneous agent multiple-employer plan:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Balance at: 6/30/2016	\$ 207,247,524	\$ 145,026,259	\$ 62,221,265
Changes Recognized for the Measurement Period:			
Service Cost	4,112,823	-	4,112,823
Interest on the Total Pension Liability	15,276,818	-	15,276,818
Changes of Assumptions	12,113,075	-	12,113,075
Differences between Expected and Actual Experience	(2,221,040)		(2,221,040)
Contribution from the Employer	-	5,240,243	(5,240,243)
Contributions from Employees	-	1,589,948	(1,589,948)
Net Investment Income	-	15,993,781	(15,993,781)
Benefit Payments including Refunds of Employee Contributions	(11,068,366)	(11,068,366)	-
Administrative Expense	-	(214,122)	214,122
Net Changes During 2016-17	18,213,310	11,541,484	6,671,826
Balance at: 6/30/2017	\$ 225,460,834	\$ 156,567,743	\$ 68,893,091

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 7: Defined Benefit Pension Plan (PERS) (Continued)

The following table shows the changes in net pension liability recognized over the measurement period for the Safety agent multiple-employer plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Assets)
	(a)	(b)	(c)=(a)-(b)
Balance at: 6/30/2016	\$ 244,127,784	\$ 157,264,312	\$ 86,863,472
Changes Recognized for the Measurement Period:			
Service Cost	4,569,365	-	4,569,365
Interest on the Total Pension Liability	18,189,561	-	18,189,561
Changes of Assumptions	15,388,990	-	15,388,990
Difference between Expected and Actual Experience	(440,513)	-	(440,513)
Contribution from the Employer	-	7,095,444	(7,095,444)
Contributions from Employees	-	1,442,765	(1,442,765)
Net Investment Income (2)	-	17,283,485	(17,283,485)
Benefit Payments including Refunds of Employee	(13,922,996)	(13,922,996)	-
Administrative Expense	-	(232,190)	232,190
Net Changes During 2016-17	<u>23,784,407</u>	<u>11,666,508</u>	<u>12,117,899</u>
Balance at: 6/30/2017	<u>\$ 267,912,191</u>	<u>\$ 168,930,820</u>	<u>\$ 98,981,371</u>

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

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

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate +1% (8.15%)
Miscellaneous Plan:			
Plan's Net Pension Liability/(Assets)	\$ 97,913,073	\$ 68,893,091	\$ 44,839,585
Safety Plan:			
Plan's Net Pension Liability/(Assets)	136,125,703	98,981,371	68,646,504
Total	<u>\$ 234,038,776</u>	<u>\$ 167,874,462</u>	<u>\$ 113,486,089</u>

Pension Plan Fiduciary Net Position

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and OPEB expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves. Detailed information about the plans' fiduciary net position is available in the separately issued CalPERS financial reports. See CalPERS website for additional information.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 7: Defined Benefit Pension Plan (PERS) (Continued)

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

For the Miscellaneous agent multiple-employer plan, as of the start of the measurement period (July 1, 2016), the net pension liability was \$62,221,265. For the measurement period ending June 30, 2017 (the measurement date), the City incurred a pension expense/(income) of \$11,359,120 for the Plan.

As of June 30, 2018, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
City contributions subsequent to the measurement date	\$ 5,980,682	\$ -
Change in Assumptions	6,846,521	-
Difference between Expected and Actual Experience	-	(1,385,043)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	2,152,403	-
Total	\$ 14,979,606	\$ (1,385,043)

The \$5,980,682 reported as deferred outflows represents contributions made after the measurement date of the net pension liability but before the end of the City's reporting period and will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ 4,094,221
2019	3,775,001
2020	912,465
2021	(1,167,806)
Total	<u>\$ 7,613,881</u>

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 7: Defined Benefit Pension Plan (PERS) (Continued)

For the Safety agent multiple-employer plan, as of the start of the measurement period (July 1, 2016), the net pension liability was \$86,863,472. For the measurement period ending June 30, 2017 (the measurement date), the City incurred a pension expense/(income) of \$14,272,424 for the Plan.

As of June 30, 2018, the City has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
City contributions subsequent to the measurement date	\$ 7,737,647	\$ -
Difference between Expected and Actual Experience	11,443,095	(778,972)
Change in Assumptions	1,847,865	(327,561)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	<u>2,477,023</u>	<u>-</u>
Total	<u>\$ 23,505,630</u>	<u>\$ (1,106,533)</u>

The \$7,737,647 reported as deferred outflows of resources represents contributions made after the measurement date of the net pension liability but before the end of the City's reporting period and will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period. Other amounts reported as deferred outflows or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Measurement Period ended June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ 4,073,213
2019	7,360,094
2020	4,478,422
2021	<u>(1,250,279)</u>
Total	<u>\$ 14,661,450</u>

Note 8: Other Post-Retirement Health Care Benefits

Plan Description

The City provides retiree medical insurance benefits under the CalPERS health plan, a cost sharing plan, 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 (unless disabled) and are eligible for a PERS pension. The benefits are available only to employees who retire from the City.

CITY OF PALM SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Note 8: Other Post-Retirement Health Care Benefits (Continued)

Employees Covered

At June 30, 2017, the measurement date, the following numbers of participants were covered by the benefit terms:

<u>Description</u>	<u>Participants</u>
Inactives currently receiving benefits	209
Inactives entitled to but not yet receiving benefits	-
Active employees	354
	<u>563</u>

Contributions

The contribution requirements of plan members and the City are established and may be amended by the City Council. The City must agree to make a defined monthly payment towards the cost of each retiree's coverage.

The City funds retiree medical insurance benefits on a pay as you go basis, paying for retiree medical insurance from the City's Retiree Health Insurance internal service fund. The City has not set up a trust for purposes of funding the required retiree medical insurance payments. For fiscal year 2017-2018, the City paid a total of \$3,480,420 for retiree health insurance.

Total OPEB Liability

The City's total OPEB liability was measured as of June 30, 2017 for the measurement period July 1, 2016 through June 30, 2017. The total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation dated June 30, 2017, based on the following actuarial assumptions:

Actuarial Assumptions:

Discount rate	3.13% on June 30, 2017 and 2.38% on June 30, 2016	
Inflation	2.75% per year	
Salary Increases	3.25% per year, used only to allocate the cost of benefits between service years	
Investment rate of return	N/A	
Mortality rate	MacLeod Watts Scale 2017 applied generationally	
Healthcare trend rate	Medical plan premiums and claims costs by age are assumed to increase once each year as follows:	
	2018 - 8.00%	2022 - 6.00%
	2019 - 7.50%	2023 - 5.50%
	2020 - 7.00%	2024 - 5.00%
	2021 - 6.50%	Later - 5.00%

Discount Rate

The discount rate used to measure the total OPEB liability are based on the S&P Municipal Bond 20 Year High Grade Index. This index indicates discount rates of 2.68% as of June 30, 2016 and 3.13 as of June 30, 2017

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 8: Other Post-Retirement Health Care Benefits (Continued)

Changes in the Total OPEB Liability.

The changes in the total OPEB liability for the plan are as follows:

	<u>Total OPEB Liability</u> <u>Measurement Period</u> <u>2016-17</u>
Total OPEB Liability - June 30, 2016	\$ 148,690,866
Changes in Total OPEB Liability	
Service Cost	3,726,841
Interest	4,040,843
Actual vs. expected experience	-
Assumption changes	(11,536,388)
Benefits payments	(3,280,004)
Changes of benefit terms	-
Net Changes	<u>(7,048,708)</u>
Total OPEB Liability - June 30, 2017	<u>\$ 141,642,158</u>

Sensitivity of the Total OPEB Liability to Changes in the discount rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point higher or one percentage point lower than the current discount rate, for the measurement period June 30, 2017:

	<u>Discount Rate</u>		
	<u>1% Decrease (2.13%)</u>	<u>Current Rate (3.13%)</u>	<u>1% Increase (4.13%)</u>
Total OPEB Liability	\$ 169,198,001	\$ 141,642,158	\$ 120,149,710

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point higher or one percentage point lower than the current healthcare cost trend rates:

	<u>Healthcare Trend Rate</u>		
	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 115,818,582	\$ 141,642,158	\$ 177,453,777

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 8: Other Post-Retirement Health Care Benefits (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$6,032,889. At June 30, 2018, the City's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	(9,801,593)
Employer contribution made subsequent to measurement date	3,480,420 *	-
Total	<u>\$ 3,480,420</u>	<u>\$ (9,801,593)</u>

* Includes \$2,778,834 direct benefit payments plus \$701,586 implied contributions for fiscal year 2017-18.

The \$3,480,420 reported as deferred outflows of resources represents contributions made after the measurement date of the OPEB liability but before the end of the City's reporting period and will be recognized as a reduction of the net pension liability in the subsequent fiscal period rather than in the current fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,734,795)
2020	(1,734,795)
2021	(1,734,795)
2022	(1,734,795)
2023	(1,734,795)
Thereafter	(1,127,618)
Total	<u>\$ (9,801,593)</u>

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 9: Leasehold Interest

SENCA Palm Springs, Inc., a California Corporation, was the lessee under Business Lease No. PSL-315 and a letter dated May 1, 1984, which are collectively referred to as the "Master Lease," which totaled 30.85 acres. Under this Master Lease, the Agua Caliente (Palm Springs) Reservation was the "lessor" while SENCA was the "lessee."

On September 28, 1989, the City of Palm Springs entered into an agreement with SENCA to assume SENCA's lease. The agreement provided for, among other things, the assignment by SENCA to the City of all of SENCA's right, title and interest in and to the Master Lease and the three subleases in exchange for \$3,000,000. In addition, the City subleased to SENCA the remainder of the Master Lease Property (the "New Sublease Property"). The swap saved the City hundreds of thousands of dollars per year in lease payments and allowed SENCA to not have to make any lease payments on the undeveloped portion of land until it developed. The City assumed the responsibility of collecting the rent of the three remaining subleases: Wyndham Hotel, Convention Center and Voss Properties. However, SENCA's interest in that sublease was eventually sold to Tom and Jacqueline Suitt. Until the site is developed, the rent was \$1 per year, with a percentage lease calculated in the original 1989 lease amendment applied once the property developed. It was anticipated in the original (1984) and amended (1989) leases that the allottees would be entitled to rental income from the property once developed. Voss Properties eventually went into foreclosure, and the sublease was turned into a direct lease with the Bureau of Indian Affairs. The basic rent of \$470,450 for the Renaissance Palm Springs Hotel, formerly the Wyndham Hotel has been adjusted by increases in the Consumer Price Index to \$981,077.

The Convention Center's basic rent of \$225,000 is now \$401,000. The rents paid to the City are due each December 20th for the succeeding calendar year. The next CPI adjustment will affect the December 20, 2014, payment for the fiscal year ending June 30, 2015. The subleases expire in 2059.

Subsequently, the City pays the lessor in accordance with the Master Lease. Basic rent is adjusted every five years using the "Base Index" (Price Index of December 1984) issued by the Bureau of Labor Statistics of the United States Department of Labor. The current annual rent is \$1,489,200. In April 2004, the City and the Indian allottees approved a Settlement Agreement and new lease amendment that changed how the overall lease was calculated. These actions were intended to settle potential litigation brought by the allottees against the City for an alleged underpayment of rent as it related to the calculation of the percentage rent. The 2004 amendment reduced or eliminated most or all of the rent percentages in favor of a higher Guaranteed Annual Rent (GAR) of \$1,200,000 in 2004 and traded a substantial immediate increase in the GAR in return for receiving no additional rent from the Suitt parcel when it developed.

The pre-amendment rent for the whole 30 acres would have been about \$900,000. Just as in the 1989 amendment, the rent should be adjusted in five years (2010) by CPI in an amount not to exceed 30%. Most importantly, the new lease requires a reappraisal of the property (as defined in Addendum 2 and referenced in Article 2 of the original and amended leases) in the year 2014, with the new GAR to be calculated at 8% of the new value.

In late 2004, Suitt entered negotiations with Enterprise California ("Enterprise") for Enterprise to acquire Suitt's position in the sublease and negotiate a new sublease with the City. Enterprise and Suitt then approached the City regarding a lease assumption. Suitt was not a party to any of the 2003-04 negotiations between the allottees and the City that resulted in the Master Lease amendment and their original negotiations with Enterprise were based on their understanding of the terms of the controlling Master Lease (essentially, the 1989 lease) and their sublease.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 9: Leasehold Interest (Continued)

The City and PS Venture Caballeros/Amado, LLC (a partnership including Enterprise) entered into an Amended and Restated Sublease, dated February 9, 2006, where the City as the Master Lessee and sublandlord subleased to PS Venture the Suitt portion of the Master Lease Property, specifically a 9.62-acre parcel of land ("Sublease Land") located at the southeast corner of Avenida Caballeros and Amado Road. Enterprise proposed to construct 234 mid-rise condominiums and town homes on the site and spent over \$7,600,000 on acquisition of the lease and entitlement over the previous two years.

At its June 27, 2007, meeting, the Former Community Redevelopment Agency of the City of Palm Springs approved acquiring the sublease of a 9.62-acre parcel for future development of public and/or private facilities and paid \$7,804,000 for the parcel, which was the fair market value of the land. The transaction was finalized prior to the deadline of October 4, 2007, using 2007 Tax Allocation bonds. The Successor Agency now leases the parcel from the City of Palm Springs.

The Master Lease and subleases are considered for accounting purposes to be operating leases.

Note 10: Construction Commitments

The City has active construction projects as of June 30, 2018. The projects include streets and drainage, facilities and equipment, traffic signal projects, landscapes and bridges. At fiscal year end, the City's encumbrances with contractors were as follows:

	Spent-to-date	Remaining Commitment
Airport	\$ 2,888,421	\$ 737,659
Chamber	1,377,453	739
Chevron Op Terra	2,150,585	243,621
City Facility Improvements	3,132,503	399,320
Downtown	2,430,608	1,096,559
Police	1,248,642	2,969,889
Street/Drains	4,987,765	1,832,896
Tahquitz Creek Plan	323,950	1,030,099
Wastewater	20,679,136	2,575,626
	<u>\$ 39,219,063</u>	<u>\$ 10,886,408</u>

Beginning net position was restated as follows:

Funds	Amounts
Enterprise Funds	
Airport	
To correct capitalization of prior year capital assets	\$ 1,546,788
To record prior year rental for the City Yard	154,268
Total Business-Type Activities	<u>\$ 1,701,056</u>
Internal Service Funds	
Motor Vehicle Replacement	
To record prior year rental for the City Yard	\$ (154,268)
Retiree Health Insurance	
GASB Statement No. 75 Implementation	(145,410,862)
Governmental Activities	
GASB Statement No. 75 Implementation	44,041,286
To correct capitalization of prior year capital assets	23,754
Total Governmental Activities	<u>\$ (101,500,090)</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 12: Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Palm Springs that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 4, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 23071.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies are only allocating revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

a. Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$ 6,030,645
Cash and investments with fiscal agent	6,100
	<u>\$ 6,036,745</u>

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018

Note 12: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

b. Long-Term Debt

A description of long-term debt outstanding of the Successor Agency as of June 30, 2018, follows:

Fiduciary Activities	Beginning Balance	Defeased	Additions	Deletions	Ending Balance	Due Within One Year
Advances from the City of Palm Springs	\$ 3,979,285	\$ -	\$ -	\$ -	\$ 3,979,285	\$ -
2007 Tax Allocation Bonds, Series A, B, C	20,205,000	17,775,000	-	580,000	1,850,000	65,000
2014 Tax Allocation Refunding Bonds	13,825,000	-	-	985,000	12,840,000	1,010,000
2017A Tax Allocation Refunding Parity Bonds	-	-	11,345,000	-	11,345,000	395,000
2017B Tax Allocation Refunding Parity Bonds	-	-	5,680,000	-	5,680,000	305,000
Unamortized Bond Premium	1,777,586	-	1,329,589	98,750	3,008,425	-
Total	<u>\$ 39,786,871</u>	<u>\$ 17,775,000</u>	<u>\$ 18,354,589</u>	<u>\$ 1,663,750</u>	<u>\$ 38,702,710</u>	<u>\$ 1,775,000</u>

Advances from the City of Palm Springs

The Successor Agency has an advance from the City of Palm Springs Housing Fund in the amount of \$3,979,285 as of June 30, 2018.

2007 Tax Allocation Bonds Series A, B, C

On September 7, 2007, the Former Community Redevelopment Agency issued \$12,770,000 TAB Series A, \$1,910,000 TAB Series B, and \$6,495,000 Series C. The Bonds were issued to finance redevelopment activities of the Agency within, or of benefit to, the Agency's Merged Project Area No. 1, capitalize interest in the Series A Bonds, satisfy a portion of the reserve requirement for the Bonds, and provide for the costs of issuing the Bonds.

The Series A Bonds consist of \$2,715,000 of serial bonds and \$10,055,000 of term bonds. The serial bonds accrue interest at rates between 4.00% and 4.50% and mature between September 1, 2017 and September 1, 2025 in amounts ranging from \$150,000 to \$615,000. The first portion of the term bonds with principal of \$5,000,000 accrues interest at a rate of 5.00% and matures on September 1, 2030. The second portion of the term bonds with principal of \$5,055,000 accrues interest at a rate of 5.00% and matures on September 1, 2034. These bonds were fully refunded during the current year with the issuance of the 2017A Tax Allocation Refunding Parity Bonds.

The Series B Bonds consist of \$1,910,000 in term bonds. The first portion of the term bonds with principal of \$1,910,000 accrues interest at a rate of 6.141% and matures on September 1, 2034.

The Series C Bonds consist of \$6,495,000 in term bonds. The term bonds with principal of \$1,140,000 accrues interest at a rate of 5.59% and matures on September 1, 2017. The second portion of the term bonds with principal of \$5,355,000 accrues interest at a rate of 6.411% and matures on September 1, 2034. These bonds were fully refunded during the current year with the issuance of the 2017B Taxable Tax Allocation Refunding Parity Bonds.

The Series A, B and C Bonds shall also be subject to redemption, in part by lot, on September 1 in each year, from Sinking Account payments made by the Agency pursuant to the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof shall be purchased pursuant to the Indenture.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 12: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

In October 2017, the Successor Agency issued the 2017 A Tax Allocation Refunding Parity Bonds and the 2017 B Taxable Tax Allocation Refunding Parity Bonds to refund in totality the 2007 Tax Allocation Bonds Series A and C and partially refund the 2007 Tax Allocation Bonds Series B. As a result, the balance outstanding on the 2007 Tax Allocation Bonds Series B as of June 30, 2018, is \$1,850,000. Future requirements to amortize are as follows:

June 30	Series B	
	Principal	Interest
2019	\$ 65,000	\$ 111,613
2020	70,000	107,468
2021	75,000	103,015
2022	80,000	98,256
2023	80,000	93,343
2024-2028	490,000	383,198
2029-2033	660,000	207,873
2034-2035	330,000	20,572
Total	<u>\$ 1,850,000</u>	<u>\$ 1,125,338</u>

2014 Subordinate Tax Allocation Refunding Bonds

On July 22, 2014, the Successor Agency to the Palm Springs Community Redevelopment Agency issued \$15,635,000 Subordinate Tax Allocation Refunding Bonds. The proceeds from the issuance were used to refund the 2001 and 2004 Series A and B Housing Tax Allocation Bonds. Interest on the bonds range between 3.0% and 5.0% and the final maturity date is August 1, 2034.

The total bond balance outstanding at June 30, 2018, is \$12,840,000 including \$1,678,836 of unamortized premium.

Fiscal Year	Principal	Interest
June 30		
2019	\$ 1,010,000	\$ 576,150
2020	1,070,000	524,150
2021	1,120,000	480,600
2022	1,155,000	434,925
2023	870,000	384,300
2024 - 2028	2,945,000	1,492,275
2029 - 2033	3,165,000	787,125
2034 - 2035	1,505,000	76,375
Totals	<u>\$ 12,840,000</u>	<u>\$ 4,755,900</u>

2017A Tax Allocation Refunding Parity Bonds

On October 26, 2017, the Successor Agency to the Palm Springs Community Redevelopment Agency issued \$11,345,000 Tax Allocation Refunding Parity Bonds. The proceeds from the issuance were used to refund the 2007 Series A and B Housing Tax Allocation Bonds. Interest on the bonds range between 0.930% and 3.260% and the final maturity date is September 1, 2034.

CITY OF PALM SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2018**

Note 12: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

The total bond balance outstanding at June 30, 2018, is \$11,345,000 including \$1,452,294 of unamortized premium.

Fiscal Year	Principal	Interest
<u>June 30</u>		
2019	\$ 395,000	\$ 472,700
2020	295,000	462,850
2021	295,000	449,575
2022	165,000	438,075
2023	150,000	430,200
2024 - 2028	2,470,000	1,934,250
2029 - 2033	5,175,000	930,875
2034 - 2035	<u>2,400,000</u>	<u>72,450</u>
Totals	<u>\$ 11,345,000</u>	<u>\$ 5,190,975</u>

2017B Taxable Tax Allocation Refunding Parity Bonds

On October 26, 2017, the Successor Agency to the Palm Springs Community Redevelopment Agency issued \$5,680,000 Taxable Tax Allocation Refunding Parity Bonds. The proceeds from the issuance were used to refund the 2007 Series C Housing Tax Allocation Bonds. Interest on the bonds range between 1.50% and 3.55% and the final maturity date is September 1, 2029.

The total bond balance outstanding at June 30, 2018, is \$5,680,000 including \$(122,705) of unamortized discount.

Fiscal Year	Principal	Interest
<u>June 30</u>		
2019	\$ 305,000	\$ 161,256
2020	275,000	156,906
2021	285,000	151,994
2022	285,000	146,294
2023	290,000	140,181
2024 - 2028	1,575,000	578,378
2029 - 2033	1,845,000	307,356
2034 - 2035	<u>820,000</u>	<u>28,875</u>
Totals	<u>\$ 5,680,000</u>	<u>\$ 1,671,240</u>

The proceeds of the 2017 A Tax Allocation Refunding Parity Bonds and 2017B Taxable Tax Allocation Refunding Parity Bonds were deposited under the Escrow Agreements and together with other available moneys, were invested in Federal Securities or held uninvested and irrevocably pledged for the payment of the related prior bonds on their respective date of redemption as follows:

- The \$12,420,000 outstanding 2007 Series A Bonds were redeemed in full on December 1, 2017, at a redemption price equal to 100% of the principal amount of the 2007 Series A Bonds together with accrued interest thereon to the date fixed for redemption, without premium, and
- The \$5,355,000 outstanding 2007 Series C Bonds were redeemed in full on December 1, 2017, at a redemption price equal to 100% of the principal amount of the 2007 Series C Bonds together with accrued interest thereon to the date fixed for redemption, without premium.

Note 12: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

Amounts so deposited under the Escrow Agreements were pledged to the redemption price of the prior bonds on the respective redemption dates and the sufficiency of the amounts deposited under the Escrow Agreements for such purpose were verified by the Verification Agent. The lien of the prior bonds was discharged, terminated and of no further force and effect upon the deposit with the Escrow Bank of the amounts required pursuant to the Escrow Agreements.

As a result, the Successor Agency reduced the aggregate debt service payments by \$4.9 million over the remaining maturity period of the 2017 A Tax Allocation Refunding Parity Bonds and 2017 B Taxable Tax Allocation Refunding Parity Bonds and realized an economic gain of \$3.6 million (difference between the present values of the debt service payments on the old and new debt).

Pledged Revenues

The City has pledged a portion, as security for bonds issued, either directly or through the Palm Springs Financing Authority, a portion of future tax increment revenue (including Low and Moderate Income Housing set-aside and pass through allocations) received. The bonds issued were to provide financing for various capital projects and accomplish Low and Moderate Income Housing projects. Assembly Bill 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the various bonds is \$44,458,453, payable through September 2034. For the current year, principal and interest paid and total property tax revenues were \$3,088,950 and \$5,667,703, respectively.

c. Insurance

The Successor Agency is covered under the City of Palm Springs's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Successor Agency. Additional information as to coverage and self-insured retentions can be found in Note 6.

d. Commitments and Contingencies

Developer Agreement

In January 2000, the former Community Development Agency entered into a Disposition and Development agreement with VIP Motor Cars, the operators of an auto dealership to provide rehabilitation assistance to expand and upgrade the dealership. The developer was required to make improvements to the site at a cost of at least \$2,000,000. After improvements were completed, the agreement obligated the agency to pay up to \$1,000,000 based on sales tax revenues generated in excess of a base sales tax revenue threshold. The payments were due annually commencing on the first year after the Agency issued the Notice of Release of Construction and ending the earlier of either a period of 12 years or until the \$1,000,000 was expended.

CITY OF PALM SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEAR ENDED JUNE 30, 2018

Note 12: Successor Agency Trust for Assets of Former Redevelopment Agency (Continued)

In 2005, the Disposition and Development agreement (DDA) was amended extending the term of the DDA, the Lease and Sublease attached to the DDA and as such changed the rent assistance formula and increased the Cumulative Increment Rent Assistance to reflect maximum cumulative agency assistance of \$2,900,000, an increase of \$1,900,000 from the initial agreement. The changes in the rent assistance formula and maximum assistance was to take effect after a certain "Trigger Date" that would be determined by the relocation of the BMW dealership and report of sales from the new location. The site was expanded further for a new facility of approximately 25,000 square feet and 20 service bays with operations starting at the new location in February 2008. Based on the date that VIP Motors started reporting sales from the new location, the formula for rent assistance commenced on January 1, 2007 for a period of twelve (12) calendar years or a maximum cumulative Agency assistance of \$2,900,000, whichever is sooner. Accordingly, the rental assistance schedule is effective through December 2018 or when \$2,900,000 in cumulative assistance has been provided, whichever is sooner.

No liability has been reflected in the accompanying financial statements at June 30, 2018 for this agreement.

Note 13: Hotel Incentive Program Payment Obligations

The City has a Hotel Incentive Program allowing hotel owners to refurbish older properties or build new hotels utilizing some of their paid Transient Occupancy Taxes (TOT) which are refunded for these agreed upon expenditures. During the year ended June 30, 2018, TOT revenues were refunded by \$2,563,339 under these agreements with the following hotels:

Hotel Incentive Payment Obligations:	Incentive Amount	End of Agreement
Triada	\$ 168,802	October 31, 2019
Colony Palms	196,550	February 28, 2021
Hyatt	149,220	April 30, 2022
Saguaro	289,696	April 30, 2022
Riviera	315,692	May 31, 2022
Bearfoot Inn	9,196	December 31, 2022
Hilton	277,135	April 30, 2023
Hard Rock	174,921	September 30, 2023
Sparrows	88,894	September 30, 2023
Palm Mountain	107,790	September 30, 2025
Palm Springs Hotel	52,916	October 31, 2025
Alcazar	45,049	December 31, 2025
Arrive Hotel	117,056	February 28, 2026
Colt's Lodge	18,070	June 30, 2026
Rowan	552,352	October 31, 2047
Total	\$ 2,563,339	

CITY OF PALM SPRINGS

**MISCELLANEOUS PLAN - AGENT MULTIPLE-EMPLOYER PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

MEASUREMENT PERIOD (1)	2014	2015	2016	2017
TOTAL PENSION LIABILITY				
Service Cost	\$ 3,620,370	\$ 3,638,462	\$ 3,592,689	\$ 4,112,823
Interest on total pension liability	13,835,783	14,462,203	14,978,434	15,276,818
Difference Between expected and Actual Experience	-	165,779	-	(2,221,040)
Changes in Assumptions	-	(3,373,293)	(994,153)	12,113,075
Benefit Payments, Including Refunds of employee Contributions	(9,349,367)	(10,023,409)	(10,647,582)	(11,068,366)
Net Change in Total Pension Liability	8,106,786	4,869,742	6,929,388	18,213,310
Total Pension Liability - Beginning	187,341,608	195,448,394	200,318,136	207,247,524
Total Pension Liability - Ending (a)	\$ 195,448,394	\$ 200,318,136	\$ 207,247,524	\$ 225,460,834
PLAN FIDUCIARY NET POSITION				
Contribution - Employer	\$ 3,834,378	\$ 4,332,593	\$ 4,921,063	\$ 5,240,243
Contribution - Employee	1,523,877	1,635,767	1,523,892	1,589,948
Plan to Plan Resource Movement	-	123	2,627	-
Net Investment Income	22,411,505	3,336,784	730,670	15,993,781
Benefit Payments, Including Refunds of Employee Contributions	(9,349,367)	(10,023,409)	(10,647,582)	(11,068,366)
Administrative Expense	-	(167,261)	(90,556)	(214,122)
Net Change in Fiduciary Net Position	18,420,393	(885,403)	(3,559,886)	11,541,484
Plan Fiduciary Net Position - Beginning	131,051,155	149,471,548	148,586,145	145,026,259
Plan Fiduciary Net Position - Ending (b)	\$ 149,471,548	\$ 148,586,145	\$ 145,026,259	\$ 156,567,743
Plan Net Pension Liability/(Assets) - Ending (a) - (b)	\$ 45,976,846	\$ 51,731,991	\$ 62,221,265	\$ 68,893,091
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.48%	74.18%	69.98%	69.44%
Covered Payroll	\$ 17,841,364	\$ 18,686,572	\$ 19,306,195	\$ 20,128,338
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	257.70%	276.84%	322.29%	342.27%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

CITY OF PALM SPRINGS

**MISCELLANEOUS PLAN - AGENT MULTIPLE-EMPLOYER PLAN
SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 4,343,728	\$ 4,915,444	\$ 4,850,087	\$ 5,980,682
Contribution in Relation to the Actuarially Determined Contribution	<u>(4,343,728)</u>	<u>(4,915,444)</u>	<u>(4,850,087)</u>	<u>(5,980,682)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 18,686,572	\$ 19,306,195	\$ 20,128,338	\$ 22,366,073
Contributions as a Percentage of Covered Payroll	23.25%	25.46%	24.10%	26.74%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

Note to Schedule:

Valuation Date: June 30, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method/period	Level percentage of
Assets valuation method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20%
Payroll Growth	3.00%
Investment rate of return	7.65% net of pension plan investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

CITY OF PALM SPRINGS

**SAFETY PLAN - AGENT MULTIPLE-EMPLOYER PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

MEASUREMENT PERIOD (1)	2014	2015	2016	2017
TOTAL PENSION LIABILITY				
Service Cost	\$ 3,785,830	\$ 3,579,202	\$ 3,694,824	\$ 4,569,365
Interest	16,202,972	16,817,588	17,690,881	18,189,561
Difference Between expected and Actual Experience	-	207,093	3,936,551	(440,513)
Changes in Assumptions	-	(4,117,429)	-	15,388,990
Benefit Payments, Including Refunds of employee Contributions	(11,730,688)	(12,623,417)	(13,327,695)	(13,922,996)
Net Change in Total Pension Liability	8,258,114	3,863,037	11,994,561	23,784,407
Total Pension Liability - Beginning	220,012,072	228,270,186	232,133,223	244,127,784
Total Pension Liability - Ending (a)	\$ 228,270,186	\$ 232,133,223	\$ 244,127,784	\$ 267,912,191
PLAN FIDUCIARY NET POSITION				
Contribution - Employer	\$ 4,602,200	\$ 5,272,145	\$ 5,906,758	\$ 7,095,444
Contribution - Employee	1,392,329	1,348,094	1,335,497	1,442,765
Net Investment Income (2)	25,042,700	3,617,828	796,599	17,283,485
Benefit Payments, Including Refunds of Employee Contributions	(11,730,688)	(12,623,417)	(13,327,695)	(13,922,996)
Administrative Expense	-	(183,062)	(99,128)	(232,190)
Net Change in Fiduciary Net Position	19,306,541	(2,568,412)	(5,387,969)	11,666,508
Plan Fiduciary Net Position - Beginning	145,914,152	165,220,693	162,652,281	157,264,312
Plan Fiduciary Net Position - Ending (b)	\$ 165,220,693	\$ 162,652,281	\$ 157,264,312	\$ 168,930,820
Plan Net Pension Liability/(Assets) - Ending (a) - (b)	\$ 63,049,493	\$ 69,480,942	\$ 86,863,472	\$ 98,981,371
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.38%	70.07%	64.42%	63.05%
Covered Payroll	\$ 13,209,455	\$ 13,037,562	\$ 13,664,290	\$ 15,010,562
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	477.31%	532.93%	635.70%	659.41%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

CITY OF PALM SPRINGS

**SAFETY PLAN - AGENT MULTIPLE-EMPLOYER PLAN
SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 5,270,514	\$ 5,736,274	\$ 7,112,083	\$ 7,737,647
Contribution in Relation to the Actuarially Determined Contribution	<u>(5,270,514)</u>	<u>(5,736,274)</u>	<u>(7,112,083)</u>	<u>(7,737,647)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 13,037,562	\$ 13,664,290	\$ 15,010,562	\$ 16,438,319
Contributions as a Percentage of Covered Payroll	40.43%	41.98%	47.38%	47.07%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only four years are shown.

Note to Schedule:

Valuation Date: June 30, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method/period	Level percentage of
Remaining amortization period	25 Years as of Valuation Date
Assets valuation method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20%
Payroll Growth	3.00%
Investment rate of return	7.65% net of pension plan investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

CITY OF PALM SPRINGS

**OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS
SCHEDULE OF CHANGES IN OPEB LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)**

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 3,726,841
Interest on the total OPEB liability	4,040,843
Actual and expected experience difference	-
Changes in assumptions	(11,536,388)
Changes in benefit terms	-
Benefit payments	(3,280,004)
Net change in total OPEB liability	(7,048,708)
Total OPEB liability - beginning	148,690,866
Total OPEB liability - ending (a)	\$ 141,642,158
Covered employee payroll	\$ 34,929,760
Net OPEB liability as a percentage of covered employee payroll	405.51%

(1) Historical information is required only for the measurement periods for which GASB 75 is applicable. Fiscal Year 2018 was the first year of implementation. Future years' information will be displayed up to 10 years as information becomes available.

Notes to Schedule: None.

Changes in assumptions: The discount rate was changed from 2.68% as June 30, 2016 to 3.13% for the measurement period ended June 30, 2017.

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 32,570,761	\$ 32,570,761	\$ 32,570,761	\$ -
Resources (Inflows)				
Taxes	98,027,417	99,202,417	108,243,435	9,041,018
Licenses and permits	4,908,000	5,002,106	5,266,590	264,484
Intergovernmental	277,000	341,764	373,097	31,333
Charges for services	6,008,094	6,135,376	7,143,370	1,007,994
Use of money and property	317,500	317,500	523,089	205,589
Contributions	-	5,129	74,197	69,068
Miscellaneous	192,824	193,324	422,089	228,765
Transfers in	-	-	887,500	887,500
Amounts Available for Appropriations	142,301,596	143,768,377	155,504,128	11,735,751
Charges to Appropriation (Outflow)				
General government	20,566,092	22,902,657	20,084,214	2,818,443
Public safety	42,954,424	43,949,497	41,951,070	1,998,427
Cultural and convention center	3,071,262	3,072,262	2,585,508	486,754
Parks and recreation	7,773,606	8,989,348	8,020,413	968,935
Public works	11,669,791	12,333,333	11,151,350	1,181,983
Library	2,865,439	2,973,442	2,760,477	212,965
Debt service:				
Principal retirement	2,040,000	2,040,000	-	2,040,000
Interest and fiscal charges	2,644,146	2,644,146	-	2,644,146
Transfers out	-	-	18,640,906	(18,640,906)
Total Charges to Appropriations	93,584,760	98,904,685	105,193,938	(6,289,253)
Budgetary Fund Balance, June 30	\$ 48,716,836	\$ 44,863,692	\$ 50,310,190	\$ 5,446,498

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
HOUSING
YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 10,610,199	\$ 10,610,199	\$ 10,610,199	\$ -
Resources (Inflows):				
Use of money and property	7,500	7,500	6,311	(1,189)
Miscellaneous	-	-	30,228	30,228
Amounts Available for Appropriations	10,617,699	10,617,699	10,646,738	29,039
Charges to Appropriations (Outflow):				
Housing	229,845	229,845	172,420	57,425
Total Charges to Appropriations	229,845	229,845	172,420	57,425
Budgetary Fund Balance, June 30	\$ 10,387,854	\$ 10,387,854	\$ 10,474,318	\$ 86,464

Note 1: Budgets and Budgetary Accounting

a. Budgetary Control and Accounting

The adopted budget of the City consists of a resolution specifying the total appropriation for each departmental activity, (e.g., Police Administration, Airport Administration, Street Maintenance, etc.).

Total appropriations for each fund may only be increased or decreased by the City Council by passage of a resolution amending the budget, with the exception of budget adjustments which involve offsetting revenues and expenditures. In cases involving offsetting revenues and expenditures, the City Manager is authorized to increase or decrease an appropriation for a specific purpose where said appropriation is offset by unbudgeted revenue which is designated for said specific purpose.

The City Manager has authority to adjust the amounts appropriated between the departments and activities of a fund, objects with each departmental activity and between accounts within the objects, provided, however, that the total appropriations for each fund may not exceed the amounts provided in the budget resolution.

The level on which expenditures may not legally exceed appropriations is the fund level. Budgets for the various funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are legally adopted for the general, special revenue, debt service, capital projects, and proprietary fund types.

The Neighborhood Involvements Fund, the Business Improvement District Fund and the Energy Efficient Loan Fund had no adopted budget for fiscal year 2017-18.

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DESCRIPTIONS OF NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted or committed to expenditure for particular purposes.

The City of Palm Springs has the following Nonmajor Special Revenue Funds:

Forfeiture Fund – To account for revenues and costs related to special narcotics investigations and seizure of assets as a result of these investigations.

Safety Augmentation Fund – To account for revenues and costs related to Proposition 172, which authorized a special ½ % sales tax to be used for safety purposes only.

Special Development Fund – To account for revenues and costs related to special building fees assessed on tracts in Specific Plan I in the South Palm Canyon areas.

CSA 152 Fund – To account for revenues and costs related to the implementation of the National Pollutant Discharge Elimination System. This program is designed to reduce pollutants entering the various storm channels and washes throughout the community.

Recycling AB 929 Fund – To account for revenues and costs related to the operations of the City's recycling activities.

Villagefest Fund – To account for revenues and costs related to the Palm Springs Villagefest.

Neighborhood Involvements – To account for revenues and costs related to specific neighborhood improvement groups.

Parking Fund – To account for revenues and costs related to the parking lot facilities located within the City.

Gas Tax Fund – To account for revenues received from the State of California and other sources to be used for street maintenance and improvements only.

Measure A Improvements Fund - To account for revenue received from the State of California from a special ½ % sales tax to be used for street maintenance and improvements only.

Drainage Construction Fund – To account for revenue received from fees assessed on new construction for purposes of building and maintaining a drainage and flood control system within the City.

Community Development Block Grant Fund – To account for revenue and costs related to the activities approved and funded by the Block Grant Program.

Master Lease Fund – To account for revenue and expenditures related to the Master Lease held by the City on land adjacent to the Convention Center.

Air Quality Management Fund – To account for revenue received from the County for enacting air quality improvement policies.

Public Arts Fund – To account for revenue and expenditures related to fees collected on new construction for the purpose of procuring art objects for public health.

Library Fund – To account for revenues received for various purposes related to the library activities.

Quimby Act Fees Fund – To account for revenues and costs related to the Quimby Act Park Fees which are intended to pay for future parks and recreational activities.

DESCRIPTIONS OF NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)

SPECIAL REVENUE FUNDS

Special Projects Fund – To account for revenue and expenditures of deposits received from developers on a project specific basis.

CFD Public Safety #1 Fund – To account for revenues and related costs pertaining to special taxes levied in a community facilities district within the City.

Business Improvement District Fund – The Business District was established as a “special benefit assessment district” which allows the City to assess business within a defined geographic area for specific purpose. The BID Program, originally initiated by the downtown and uptown business association & Main Street Palm Springs, to improve the quality of life and economic vitality of the area.

Energy Efficiency Loan Fund – To account for revenues and costs of the Energy Efficient Loan Program.

Park Maintenance District Fund – To account for revenues and related costs for the special assessments levied for the various Landscape, Lighting and Parkway Maintenance Districts within the City.

Emergency Response Fund – To account for revenues and expenditures for 911 emergency responses.

Sustainability Fund – To account for revenues and related costs for sustainability.

Special Grants Fund - To account for grant revenues and related costs of special grants.

Small Hotel TBID Fund – To account for the self-imposed 1% assessment on taxable rent for all hotels and motels of a size of 49 rooms and fewer, where the funds are transferred monthly to a Small Hotels Tourism organization for the specific purpose of promoting tourism of said hotels.

SB1 – RMRA Fund – Senate Bill 1 (SB1), identified as "The Road Repair and Accountability Act of 2017" will increase local street and road funds allocated through the Highway Users Tax Account, allocating funds from new taxes through the new Road Maintenance and Rehabilitation Account (RMRA). In accordance with the state's new guidelines, a new and separate revenue stream through increased Gas Tax will be provided to the City, upon approval by the California Transportation Commission (CTC) of a project listing identifying the City's use of the new Gas Tax (RMRA) revenue.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the purchase or construction of major capital facilities which are not financed by Proprietary Funds or Trust Funds. Capital Projects Funds are ordinarily not used to account for the acquisition of furniture, fixtures, machinery, equipment, and other relatively minor or comparatively short-lived capital assets.

Parking Projects Fund – To account for payments into the Fund from In Lieu parking fees charges, and to account for the Capital expenditures for parking improvements.

DEBT SERVICE FUNDS

Debt Service Funds are used to accumulate resources for the payment of principal and interest on long-term debt for the City.

General Debt Service Fund - To account for the payment of principal and interest on the City's general debt issues.

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CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds			
	Forfeiture	Safety Augmentation	Special Development	CSA 152
Assets				
Pooled cash and investments	\$ 247,081	\$ 847,066	\$ 1,969,138	\$ -
Receivables:				
Accounts	-	-	-	-
Notes and loans	-	-	-	-
Accrued interest	313	985	2,430	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	-	-	-	-
Total Assets	\$ 247,394	\$ 848,051	\$ 1,971,568	\$ -
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 9,611	\$ -	\$ -	\$ 93,151
Accrued liabilities	-	6,373	-	2,783
Due to other funds	-	-	-	564,809
Total Liabilities	9,611	6,373	-	660,743
Deferred Inflows of Resources				
Unavailable revenues	7,814	-	-	-
Total Deferred Inflows of Resources	7,814	-	-	-
Fund Balances				
Restricted for:				
Public safety grants and programs	229,969	841,678	-	-
Parks and recreation activities	-	-	-	-
Public works projects	-	-	1,971,568	-
Villagefest	-	-	-	-
Leases	-	-	-	-
Library	-	-	-	-
Special projects	-	-	-	-
Assigned to:				
Capital Projects	-	-	-	-
Unassigned	-	-	-	(660,743)
Total Fund Balances	229,969	841,678	1,971,568	(660,743)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 247,394	\$ 848,051	\$ 1,971,568	\$ -

CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

(CONTINUED)

	Special Revenue Funds			
	Recycling AB 929	Villagefest	Neighborhood Involvements	Parking
Assets				
Pooled cash and investments	\$ 859,565	\$ 60,139	\$ 5,953	\$ 353,312
Receivables:				
Accounts	33,172	-	-	-
Notes and loans	-	-	-	-
Accrued interest	1,075	-	-	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	-	-	-	-
Total Assets	\$ 893,812	\$ 60,139	\$ 5,953	\$ 353,312
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 7,597	\$ 7,260	\$ -	\$ 80,518
Accrued liabilities	880	10,457	-	131
Due to other funds	-	-	-	-
Total Liabilities	8,477	17,717	-	80,649
Deferred Inflows of Resources				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances				
Restricted for:				
Public safety grants and programs	-	-	-	-
Parks and recreation activities	-	-	-	-
Public works projects	885,335	-	5,953	272,663
Villagefest	-	42,422	-	-
Leases	-	-	-	-
Library	-	-	-	-
Special projects	-	-	-	-
Assigned to:				
Capital Projects	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	885,335	42,422	5,953	272,663
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 893,812	\$ 60,139	\$ 5,953	\$ 353,312

CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds			
	Gas Tax	Measure A Improvements	Drainage Construction	Community Development Block Grant
Assets				
Pooled cash and investments	\$ 789,845	\$ 4,814,665	\$ 1,528,628	\$ -
Receivables:				
Accounts	-	783,798	-	158,855
Notes and loans	-	-	-	-
Accrued interest	884	6,639	1,931	-
Restricted assets:				
Cash and investments	-	1,119,051	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	-	-	-	-
Total Assets	\$ 790,729	\$ 6,724,153	\$ 1,530,559	\$ 158,855
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 12,636	\$ 557,464	\$ 28,408	\$ 96,314
Accrued liabilities	2,129	6,565	194	740
Due to other funds	-	-	-	63,228
Total Liabilities	14,765	564,029	28,602	160,282
Deferred Inflows of Resources				
Unavailable revenues	-	283,608	-	158,256
Total Deferred Inflows of Resources	-	283,608	-	158,256
Fund Balances				
Restricted for:				
Public safety grants and programs	-	-	-	-
Parks and recreation activities	-	-	-	-
Public works projects	775,964	5,876,516	1,501,957	-
Villagefest	-	-	-	-
Leases	-	-	-	-
Library	-	-	-	-
Special projects	-	-	-	-
Assigned to:				
Capital Projects	-	-	-	-
Unassigned	-	-	-	(159,683)
Total Fund Balances	775,964	5,876,516	1,501,957	(159,683)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 790,729	\$ 6,724,153	\$ 1,530,559	\$ 158,855

CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

(CONTINUED)

	Special Revenue Funds			
	Master Lease	Air Quality Management	Public Arts	Library
Assets				
Pooled cash and investments	\$ 37,039	\$ 115,638	\$ 415,093	\$ 1,994,026
Receivables:				
Accounts	-	15,598	-	-
Notes and loans	-	-	-	100,000
Accrued interest	-	145	472	2,161
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	-	-	-	-
Total Assets	\$ 37,039	\$ 131,381	\$ 415,565	\$ 2,096,187
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 1,341	\$ 11,584
Accrued liabilities	-	-	2,332	-
Due to other funds	-	-	-	-
Total Liabilities	-	-	3,673	11,584
Deferred Inflows of Resources				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances				
Restricted for:				
Public safety grants and programs	-	-	-	-
Parks and recreation activities	-	-	-	-
Public works projects	-	131,381	411,892	-
Villagefest	-	-	-	-
Leases	37,039	-	-	-
Library	-	-	-	2,084,603
Special projects	-	-	-	-
Assigned to:				
Capital Projects	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	37,039	131,381	411,892	2,084,603
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 37,039	\$ 131,381	\$ 415,565	\$ 2,096,187

CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds			
	Quimby Act Fees	Special Projects	CFD Public Safety #1	Business Improvement District
Assets				
Pooled cash and investments	\$ 3,520,796	\$ 2,697,644	\$ 856,366	\$ 2,059
Receivables:				
Accounts	-	37,410	17,364	-
Notes and loans	-	-	-	-
Accrued interest	4,302	-	986	-
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	-	-	-	-
Total Assets	<u>\$ 3,525,098</u>	<u>\$ 2,735,054</u>	<u>\$ 874,716</u>	<u>\$ 2,059</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 56,972	\$ -	\$ -
Accrued liabilities	-	4,136	4,476	-
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>61,108</u>	<u>4,476</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted for:				
Public safety grants and programs	-	-	870,240	-
Parks and recreation activities	3,525,098	-	-	-
Public works projects	-	-	-	2,059
Villagefest	-	-	-	-
Leases	-	-	-	-
Library	-	-	-	-
Special projects	-	2,673,946	-	-
Assigned to:				
Capital Projects	-	-	-	-
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>3,525,098</u>	<u>2,673,946</u>	<u>870,240</u>	<u>2,059</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,525,098</u>	<u>\$ 2,735,054</u>	<u>\$ 874,716</u>	<u>\$ 2,059</u>

CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

(CONTINUED)

	Special Revenue Funds			
	Energy Efficiency Loan	Park Maintenance District	Emergency Response	Sustainability
Assets				
Pooled cash and investments	\$ 500,000	\$ 724,746	\$ 385,679	\$ 378,234
Receivables:				
Accounts	-	6,496	81,846	101,425
Notes and loans	-	-	-	-
Accrued interest	-	-	897	457
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	-	-	-	912,097
Total Assets	\$ 500,000	\$ 731,242	\$ 468,422	\$ 1,392,213
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 63,268	\$ 5,553	\$ 521
Accrued liabilities	-	600	-	880
Due to other funds	-	-	-	-
Total Liabilities	-	63,868	5,553	1,401
Deferred Inflows of Resources				
Unavailable revenues	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances				
Restricted for:				
Public safety grants and programs	-	-	462,869	-
Parks and recreation activities	-	-	-	-
Public works projects	500,000	667,374	-	1,390,812
Villagefest	-	-	-	-
Leases	-	-	-	-
Library	-	-	-	-
Special projects	-	-	-	-
Assigned to:				
Capital Projects	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	500,000	667,374	462,869	1,390,812
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 500,000	\$ 731,242	\$ 468,422	\$ 1,392,213

CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds			Capital Projects Funds
	Special Grants	Small Hotel TBID	SB1-RMRA	Parking Projects
Assets				
Pooled cash and investments	\$ -	\$ 35,135	\$ 231,832	\$ 511,311
Receivables:				
Accounts	52,004	35,205	-	-
Notes and loans	-	-	-	-
Accrued interest	-	-	232	616
Restricted assets:				
Cash and investments	-	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advance to Successor Agency	-	-	-	-
Total Assets	\$ 52,004	\$ 70,340	\$ 232,064	\$ 511,927
Liabilities, Deferred Inflows of Resources, and Fund Balances				
Liabilities				
Accounts payable	\$ 15,876	\$ 65,462	\$ 270,211	\$ -
Accrued liabilities	10,218	-	-	-
Due to other funds	28,483	-	-	-
Total Liabilities	54,577	65,462	270,211	-
Deferred Inflows of Resources				
Unavailable revenues	35,287	-	-	-
Total Deferred Inflows of Resources	35,287	-	-	-
Fund Balances				
Restricted for:				
Public safety grants and programs	-	-	-	-
Parks and recreation activities	-	-	-	-
Public works projects	-	-	-	-
Villagefest	-	-	-	-
Leases	-	-	-	-
Library	-	-	-	-
Special projects	-	4,878	-	-
Assigned to:				
Capital Projects	-	-	-	511,927
Unassigned	(37,860)	-	(38,147)	-
Total Fund Balances	(37,860)	4,878	(38,147)	511,927
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 52,004	\$ 70,340	\$ 232,064	\$ 511,927

CITY OF PALM SPRINGS

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Debt Service Funds	Total Other Governmental Funds
	General Debt Service	
Assets		
Pooled cash and investments	\$ -	\$ 23,880,990
Receivables:		
Accounts	-	1,323,173
Notes and loans	-	100,000
Accrued interest	-	24,525
Restricted assets:		
Cash and investments	-	1,119,051
Cash and investments with fiscal agents	3,199,066	3,199,066
Advance to Successor Agency	-	912,097
Total Assets	\$ 3,199,066	\$ 30,558,902
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	\$ -	\$ 1,383,747
Accrued liabilities	-	52,894
Due to other funds	4,477,551	5,134,071
Total Liabilities	4,477,551	6,570,712
Deferred Inflows of Resources		
Unavailable revenues	-	484,965
Total Deferred Inflows of Resources	-	484,965
Fund Balances		
Restricted for:		
Public safety grants and programs	-	2,404,756
Parks and recreation activities	-	3,525,098
Public works projects	-	14,393,474
Villagefest	-	42,422
Leases	-	37,039
Library	-	2,084,603
Special projects	-	2,678,824
Assigned to:		
Capital Projects	-	511,927
Unassigned	(1,278,485)	(2,174,918)
Total Fund Balances	(1,278,485)	23,503,225
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,199,066	\$ 30,558,902

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Special Revenue Funds</u>			
	<u>Forfeiture</u>	<u>Safety Augmentation</u>	<u>Special Development</u>	<u>CSA 152</u>
Revenues:				
Taxes	\$ -	\$ 930,322	\$ -	\$ -
Assessments	-	-	-	491,189
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	98,999	36,816	-
Use of money and property	2,479	7,195	4,326	-
Fines and forfeitures	2,286	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	4,765	1,036,516	41,142	491,189
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	70,301	849,760	-	-
Culture and convention center	-	-	-	-
Parks and recreation	-	-	-	676,948
Public works	-	-	-	-
Library	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	70,301	849,760	-	676,948
Excess (Deficiency) of Revenues Over (Under) Expenditures	(65,536)	186,756	41,142	(185,759)
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(65,536)	186,756	41,142	(185,759)
Fund Balances, Beginning of Year	295,505	654,922	1,930,426	(474,984)
Fund Balances, End of Year	\$ 229,969	\$ 841,678	\$ 1,971,568	\$ (660,743)

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

(CONTINUED)

	Special Revenue Funds			
	Recycling AB 929	Villagefest	Neighborhood Involvements	Parking
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	478,393	-	-
Intergovernmental	25,882	-	-	-
Charges for services	120,493	-	-	3,036
Use of money and property	8,387	-	-	-
Fines and forfeitures	-	-	-	138,625
Contributions	-	-	-	-
Miscellaneous	-	10,274	-	-
Total Revenues	154,762	488,667	-	141,661
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Culture and convention center	182,487	-	-	-
Parks and recreation	-	530,793	-	-
Public works	-	-	-	337,751
Library	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	182,487	530,793	-	337,751
Excess (Deficiency) of Revenue Over (Under) Expenditures	(27,725)	(42,126)	-	(196,090)
Other Financing Sources (Uses):				
Transfers in	-	-	-	40,000
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	40,000
Net Change in Fund Balances	(27,725)	(42,126)	-	(156,090)
Fund Balances, Beginning of Year	913,060	84,548	5,953	428,753
Fund Balances, End of Year	\$ 885,335	\$ 42,422	\$ 5,953	\$ 272,663

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Special Revenue Funds			
	Gas Tax	Measure A Improvements	Drainage Construction	Community Development Block Grant
Revenues:				
Taxes	\$ -	\$ 2,093,404	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	283,324	-
Intergovernmental	947,526	182,176	-	165,562
Charges for services	-	-	-	-
Use of money and property	6,255	34,491	3,574	517
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	953,781	2,310,071	286,898	166,079
Expenditures:				
Current:				
General government	-	-	-	325,762
Public safety	-	-	-	-
Culture and convention center	-	-	-	-
Parks and recreation	-	-	-	-
Public works	197,614	2,704,572	238,894	-
Library	-	-	-	-
Debt service:				
Principal retirement	-	930,000	-	-
Interest and fiscal charges	-	168,050	-	-
Total Expenditures	197,614	3,802,622	238,894	325,762
Excess (Deficiency) of Revenue Over (Under) Expenditures	756,167	(1,492,551)	48,004	(159,683)
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	(600,000)	-	-	-
Total Other Financing Sources (Uses)	(600,000)	-	-	-
Net Change in Fund Balances	156,167	(1,492,551)	48,004	(159,683)
Fund Balances, Beginning of Year	619,797	7,369,067	1,453,953	-
Fund Balances, End of Year	\$ 775,964	\$ 5,876,516	\$ 1,501,957	\$ (159,683)

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

(CONTINUED)

	<u>Special Revenue Funds</u>			
	<u>Master Lease</u>	<u>Air Quality Management</u>	<u>Public Arts</u>	<u>Library</u>
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	60,473	-	-
Charges for services	-	-	212,003	-
Use of money and property	1,072,808	1,076	4,138	2,394
Fines and forfeitures	-	-	-	-
Contributions	-	-	4,600	5,716
Miscellaneous	-	-	-	-
Total Revenues	1,072,808	61,549	220,741	8,110
Expenditures:				
Current:				
General government	3,000	-	-	-
Public safety	-	-	-	-
Culture and convention center	1,374,855	-	295,043	-
Parks and recreation	-	-	-	-
Public works	-	38,778	-	-
Library	-	-	-	50,220
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	1,377,855	38,778	295,043	50,220
Excess (Deficiency) of Revenue Over (Under) Expenditures	(305,047)	22,771	(74,302)	(42,110)
Other Financing Sources (Uses):				
Transfers in	181,000	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	181,000	-	-	-
Net Change in Fund Balances	(124,047)	22,771	(74,302)	(42,110)
Fund Balances, Beginning of Year	161,086	108,610	486,194	2,126,713
Fund Balances, End of Year	\$ 37,039	\$ 131,381	\$ 411,892	\$ 2,084,603

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Special Revenue Funds			
	Quimby Act Fees	Special Projects	CFD Public Safety #1	Business Improvement District
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	631,494	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	485,161	700,919	-	-
Use of money and property	5,647	(19,763)	6,477	-
Fines and forfeitures	-	-	-	-
Contributions	-	613,898	-	-
Miscellaneous	-	-	-	-
Total Revenues	490,808	1,295,054	637,971	-
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	540,352	379,901	-
Culture and convention center	-	-	-	-
Parks and recreation	18,115	354,062	-	-
Public works	-	124,257	-	-
Library	-	-	-	-
Debt service:				
Principal retirement	73,962	-	-	-
Interest and fiscal charges	15,380	-	-	-
Total Expenditures	107,457	1,018,671	379,901	-
Excess (Deficiency) of Revenue Over (Under) Expenditures	383,351	276,383	258,070	-
Other Financing Sources (Uses):				
Transfers in	-	14,498	100,000	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	14,498	100,000	-
Net Change in Fund Balances	383,351	290,881	358,070	-
Fund Balances, Beginning of Year	3,141,747	2,383,065	512,170	2,059
Fund Balances, End of Year	\$ 3,525,098	\$ 2,673,946	\$ 870,240	\$ 2,059

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

(CONTINUED)

	Special Revenue Funds			
	Energy Efficiency Loan	Park Maintenance District	Emergency Response	Sustainability
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	-	363,102	979,953	368,786
Use of money and property	-	-	5,859	2,470
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	150
Total Revenues	-	363,102	985,812	371,406
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	-	-	959,121	-
Culture and convention center	-	-	-	-
Parks and recreation	-	-	-	-
Public works	-	240,035	-	110,144
Library	-	-	-	-
Debt service:				
Principal retirement	-	-	387,843	-
Interest and fiscal charges	-	-	34,476	-
Total Expenditures	-	240,035	1,381,440	110,144
Excess (Deficiency) of Revenue Over (Under) Expenditures	-	123,067	(395,628)	261,262
Other Financing Sources (Uses):				
Transfers in	-	-	10,000	-
Transfers out	-	-	-	(147,600)
Total Other Financing Sources (Uses)	-	-	10,000	(147,600)
Net Change in Fund Balances	-	123,067	(385,628)	113,662
Fund Balances, Beginning of Year	500,000	544,307	848,497	1,277,150
Fund Balances, End of Year	\$ 500,000	\$ 667,374	\$ 462,869	\$ 1,390,812

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	Special Revenue Funds			Capital Projects Funds
	Special Grants	Small Hotel TBID	SB1-RMRA	Parking Projects
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Assessments	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	235,876	-	-	-
Charges for services	-	464,728	231,062	-
Use of money and property	-	383	1,002	16,339
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	235,876	465,111	232,064	16,339
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	265,121	-	-	-
Culture and convention center	-	-	-	-
Parks and recreation	-	-	-	-
Public works	-	460,430	270,211	181
Library	7,500	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	272,621	460,430	270,211	181
Excess (Deficiency) of Revenue Over (Under) Expenditures	(36,745)	4,681	(38,147)	16,158
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(36,745)	4,681	(38,147)	16,158
Fund Balances, Beginning of Year	(1,115)	197	-	495,769
Fund Balances, End of Year	\$ (37,860)	\$ 4,878	\$ (38,147)	\$ 511,927

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Debt Service Funds</u>	<u>Total Other Governmental Funds</u>
	<u>General Debt Service</u>	
Revenues:		
Taxes	\$ -	\$ 3,023,726
Assessments	-	1,122,683
Licenses and permits	-	761,717
Intergovernmental	-	1,617,495
Charges for services	-	4,065,058
Use of money and property	39,732	1,205,786
Fines and forfeitures	-	140,911
Contributions	-	624,214
Miscellaneous	-	10,424
Total Revenues	<u>39,732</u>	<u>12,572,014</u>
Expenditures:		
Current:		
General government	10,375	339,137
Public safety	-	3,064,556
Culture and convention center	-	1,852,385
Parks and recreation	-	1,579,918
Public works	-	4,722,867
Library	-	57,720
Debt service:		
Principal retirement	3,880,559	5,272,364
Interest and fiscal charges	4,681,589	4,899,495
Total Expenditures	<u>8,572,523</u>	<u>21,788,442</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(8,532,791)</u>	<u>(9,216,428)</u>
Other Financing Sources (Uses):		
Transfers in	5,001,301	5,346,799
Transfers out	<u>(1,093,350)</u>	<u>(1,840,950)</u>
Total Other Financing Sources (Uses)	<u>3,907,951</u>	<u>3,505,849</u>
Net Change in Fund Balances	(4,624,840)	(5,710,579)
Fund Balances, Beginning of Year	<u>3,346,355</u>	<u>29,213,804</u>
Fund Balances, End of Year	<u>\$ (1,278,485)</u>	<u>\$ 23,503,225</u>

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 FORFEITURE
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 295,505	\$ 295,505	\$ 295,505	\$ -
Resources (Inflows)				
Use of money and property	2,000	2,000	2,479	479
Fines and forfeitures	-	2,286	2,286	-
Amounts Available for Appropriations	297,505	299,791	300,270	479
Charges to Appropriations (Outflow)				
Public safety	2,000	299,761	70,301	229,460
Total Charges to Appropriations	2,000	299,761	70,301	229,460
Budgetary Fund Balance, June 30	\$ 295,505	\$ 30	\$ 229,969	\$ 229,939

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 SAFETY AUGMENTATION
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 654,922	\$ 654,922	\$ 654,922	\$ -
Resources (Inflows)				
Taxes	909,352	909,352	930,322	20,970
Charges for services	-	43,529	98,999	55,470
Use of money and property	1,000	1,000	7,195	6,195
Amounts Available for Appropriations	1,565,274	1,608,803	1,691,438	82,635
Charges to Appropriations (Outflow)				
Public safety	910,352	986,131	849,760	136,371
Total Charges to Appropriations	910,352	986,131	849,760	136,371
Budgetary Fund Balance, June 30	\$ 654,922	\$ 622,672	\$ 841,678	\$ 219,006

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
SPECIAL DEVELOPMENT
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,930,426	\$ 1,930,426	\$ 1,930,426	\$ -
Resources (Inflows)				
Charges for services	-	-	36,816	36,816
Use of money and property	-	-	4,326	4,326
Amounts Available for Appropriations	1,930,426	1,930,426	1,971,568	41,142
Charges to Appropriations (Outflow)				
General government	-	31,200	-	31,200
Public works	-	1,748,109	-	1,748,109
Total Charges to Appropriations	-	1,779,309	-	1,779,309
Budgetary Fund Balance, June 30	\$ 1,930,426	\$ 151,117	\$ 1,971,568	\$ 1,820,451

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 CSA 152
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (474,984)	\$ (474,984)	\$ (474,984)	\$ -
Resources (Inflows)				
Assessments	566,275	566,275	491,189	(75,086)
Amounts Available for Appropriations	91,291	91,291	16,205	(75,086)
Charges to Appropriations (Outflow)				
Parks and recreation	566,275	886,376	676,948	209,428
Total Charges to Appropriations	566,275	886,376	676,948	209,428
Budgetary Fund Balance, June 30	\$ (474,984)	\$ (795,085)	\$ (660,743)	\$ 134,342

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 RECYCLING AB 929
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 913,060	\$ 913,060	\$ 913,060	\$ -
Resources (Inflows)				
Intergovernmental	-	11,925	25,882	13,957
Charges for services	116,000	116,000	120,493	4,493
Use of money and property	4,000	4,000	8,387	4,387
Amounts Available for Appropriations	1,033,060	1,044,985	1,067,822	22,837
Charges to Appropriations (Outflow)				
Cultural and convention center	206,356	1,130,779	182,487	948,292
Total Charges to Appropriations	206,356	1,130,779	182,487	948,292
Budgetary Fund Balance, June 30	\$ 826,704	\$ (85,794)	\$ 885,335	\$ 971,129

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 VILLAGEFEST
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 84,548	\$ 84,548	\$ 84,548	\$ -
Resources (Inflows)				
Licenses and permits	508,855	508,855	478,393	(30,462)
Miscellaneous	-	-	10,274	10,274
Amounts Available for Appropriations	593,403	593,403	573,215	(20,188)
Charges to Appropriations (Outflow)				
Parks and recreation	508,855	511,283	530,793	(19,510)
Total Charges to Appropriations	508,855	511,283	530,793	(19,510)
Budgetary Fund Balance, June 30	\$ 84,548	\$ 82,120	\$ 42,422	\$ (39,698)

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 PARKING
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 428,753	\$ 428,753	\$ 428,753	\$ -
Resources (Inflows)				
Charges for services	2,000	2,000	3,036	1,036
Fines and forfeitures	218,000	218,000	138,625	(79,375)
Transfers in	298,767	298,767	40,000	(258,767)
Amounts Available for Appropriations	947,520	947,520	610,414	(337,106)
Charges to Appropriations (Outflow)				
Public works	383,623	385,671	337,751	47,920
Total Charges to Appropriations	383,623	385,671	337,751	47,920
Budgetary Fund Balance, June 30	\$ 563,897	\$ 561,849	\$ 272,663	\$ (289,186)

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 GAS TAX
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 619,797	\$ 619,797	\$ 619,797	\$ -
Resources (Inflows)				
Intergovernmental	1,020,784	1,020,784	947,526	(73,258)
Charges for services	316,980	316,980	-	(316,980)
Use of money and property	6,001	6,001	6,255	254
Amounts Available for Appropriations	1,963,562	1,963,562	1,573,578	(389,984)
Charges to Appropriations (Outflow)				
Public works	743,765	1,361,259	197,614	1,163,645
Transfers out	600,000	600,000	600,000	-
Total Charges to Appropriations	1,343,765	1,961,259	797,614	1,163,645
Budgetary Fund Balance, June 30	\$ 619,797	\$ 2,303	\$ 775,964	\$ 773,661

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
MEASURE A IMPROVEMENTS
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 7,369,067	\$ 7,369,067	\$ 7,369,067	\$ -
Resources (Inflows)				
Taxes	2,007,000	2,007,000	2,093,404	86,404
Intergovernmental	-	6,703,587	182,176	(6,521,411)
Use of money and property	47,000	47,000	34,491	(12,509)
Amounts Available for Appropriations	9,423,067	16,126,654	9,679,138	(6,447,516)
Charges to Appropriations (Outflow)				
Public works				
Engineering	957,450	22,922,431	2,704,572	20,217,859
Debt service:				
Principal retirement	-	-	930,000	(930,000)
Interest and fiscal charges	1,096,550	1,098,050	168,050	930,000
Total Charges to Appropriations	2,054,000	24,020,481	3,802,622	20,217,859
Budgetary Fund Balance, June 30	\$ 7,369,067	\$ (7,893,827)	\$ 5,876,516	\$ 13,770,343

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
DRAINAGE CONSTRUCTION
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,453,953	\$ 1,453,953	\$ 1,453,953	\$ -
Resources (Inflows)				
Licenses and permits	133,000	133,000	283,324	150,324
Use of money and property	3,500	3,500	3,574	74
Amounts Available for Appropriations	1,590,453	1,590,453	1,740,851	150,398
Charges to Appropriations (Outflow)				
Public works	136,500	1,012,844	238,894	773,950
Total Charges to Appropriations	136,500	1,012,844	238,894	773,950
Budgetary Fund Balance, June 30	\$ 1,453,953	\$ 577,609	\$ 1,501,957	\$ 924,348

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 COMMUNITY DEVELOPMENT BLOCK GRANT
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Intergovernmental	387,462	387,462	165,562	(221,900)
Use of money and property	-	-	517	517
Amounts Available for Appropriations	387,462	387,462	166,079	(221,383)
Charges to Appropriations (Outflow)				
General government	387,462	665,838	325,762	340,076
Total Charges to Appropriations	387,462	665,838	325,762	340,076
Budgetary Fund Balance, June 30	\$ -	\$ (278,376)	\$ (159,683)	\$ 118,693

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 MASTER LEASE
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 161,086	\$ 161,086	\$ 161,086	\$ -
Resources (Inflows)				
Use of money and property	1,312,700	1,312,700	1,072,808	(239,892)
Transfers in	-	-	181,000	181,000
Amounts Available for Appropriations	1,473,786	1,473,786	1,414,894	(58,892)
Charges to Appropriations (Outflow)				
General government	4,500	360,326	3,000	357,326
Cultural and convention center	1,489,200	1,489,200	1,374,855	114,345
Total Charges to Appropriations	1,493,700	1,849,526	1,377,855	471,671
Budgetary Fund Balance, June 30	\$ (19,914)	\$ (375,740)	\$ 37,039	\$ 412,779

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
AIR QUALITY MANAGEMENT
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 108,610	\$ 108,610	\$ 108,610	\$ -
Resources (Inflows)				
Intergovernmental	57,100	57,100	60,473	3,373
Use of money and property	500	500	1,076	576
Amounts Available for Appropriations	166,210	166,210	170,159	3,949
Charges to Appropriations (Outflow)				
Public works	57,600	165,802	38,778	127,024
Total Charges to Appropriations	57,600	165,802	38,778	127,024
Budgetary Fund Balance, June 30	\$ 108,610	\$ 408	\$ 131,381	\$ 130,973

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 PUBLIC ARTS
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 486,194	\$ 486,194	\$ 486,194	\$ -
Resources (Inflows)				
Charges for services	190,000	190,000	212,003	22,003
Use of money and property	1,000	1,000	4,138	3,138
Contributions	-	4,600	4,600	-
Amounts Available for Appropriations	677,194	681,794	706,935	25,141
Charges to Appropriations (Outflow)				
Cultural and convention center	254,946	653,739	295,043	358,696
Total Charges to Appropriations	254,946	653,739	295,043	358,696
Budgetary Fund Balance, June 30	\$ 422,248	\$ 28,055	\$ 411,892	\$ 383,837

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 LIBRARY
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$2,126,713	\$ 2,126,713	\$ 2,126,713	\$ -
Resources (Inflows)				
Use of money and property	8,500	8,500	2,394	(6,106)
Contributions	100	5,700	5,716	16
Amounts Available for Appropriations	2,135,313	2,140,913	2,134,823	(6,090)
Charges to Appropriations (Outflow)				
Library	8,600	2,144,830	50,220	2,094,610
Total Charges to Appropriations	8,600	2,144,830	50,220	2,094,610
Budgetary Fund Balance, June 30	\$2,126,713	\$ (3,917)	\$ 2,084,603	\$ 2,088,520

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
 QUIMBY ACT FEES
 YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$3,141,747	\$ 3,141,747	\$ 3,141,747	\$ -
Resources (Inflows)				
Charges for services	189,400	189,400	485,161	295,761
Use of money and property	-	-	5,647	5,647
Amounts Available for Appropriations	3,331,147	3,331,147	3,632,555	301,408
Charges to Appropriations (Outflow)				
Parks and recreation	100,000	3,008,553	18,115	2,990,438
Debt service:				
Principal retirement	-	-	73,962	(73,962)
Interest and fiscal charges	89,400	89,400	15,380	74,020
Total Charges to Appropriations	189,400	3,097,953	107,457	2,990,496
Budgetary Fund Balance, June 30	\$3,141,747	\$ 233,194	\$ 3,525,098	\$ 3,291,904

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 SPECIAL PROJECTS
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 2,383,065	\$ 2,383,065	\$ 2,383,065	\$ -
Resources (Inflows)				
Charges for services	100,000	100,000	700,919	600,919
Use of money and property	-	-	(19,763)	(19,763)
Contributions	100,000	539,080	613,898	74,818
Transfers in	-	-	14,498	14,498
Amounts Available for Appropriations	2,583,065	3,022,145	3,692,617	670,472
Charges to Appropriations (Outflow)				
Public safety	100,000	951,559	540,352	411,207
Parks and recreation	100,000	618,602	354,062	264,540
Public works	-	1,557,524	124,257	1,433,267
Total Charges to Appropriations	200,000	3,127,685	1,018,671	2,109,014
Budgetary Fund Balance, June 30	\$ 2,383,065	\$ (105,540)	\$ 2,673,946	\$ 2,779,486

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 CFD PUBLIC SAFETY #1
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 512,170	\$ 512,170	\$ 512,170	\$ -
Resources (Inflows)				
Assessments	596,471	596,471	631,494	35,023
Use of money and property	1,000	1,000	6,477	5,477
Transfers in	347,193	347,193	100,000	(247,193)
Amounts Available for Appropriations	1,456,834	1,456,834	1,250,141	(206,693)
Charges to Appropriations (Outflow)				
Public safety	697,471	797,428	379,901	417,527
Total Charges to Appropriations	697,471	797,428	379,901	417,527
Budgetary Fund Balance, June 30	\$ 759,363	\$ 659,406	\$ 870,240	\$ 210,834

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 PARK MAINTENANCE DISTRICT
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 544,307	\$ 544,307	\$ 544,307	\$ -
Resources (Inflows)				
Charges for services	356,941	356,941	363,102	6,161
Amounts Available for Appropriations	901,248	901,248	907,409	6,161
Charges to Appropriations (Outflow)				
Public works	356,941	901,248	240,035	661,213
Total Charges to Appropriations	356,941	901,248	240,035	661,213
Budgetary Fund Balance, June 30	\$ 544,307	\$ -	\$ 667,374	\$ 667,374

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
EMERGENCY RESPONSE
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 848,497	\$ 848,497	\$ 848,497	\$ -
Resources (Inflows)				
Charges for services	1,406,346	1,406,346	979,953	(426,393)
Use of money and property	-	-	5,859	5,859
Transfers in	352,863	352,863	10,000	(342,863)
Amounts Available for Appropriations	2,607,706	2,607,706	1,844,309	(763,397)
Charges to Appropriations (Outflow)				
Public safety	994,025	1,043,603	959,121	84,482
Debt service:				
Principal retirement	371,676	387,843	387,843	-
Interest and fiscal charges	50,645	34,478	34,476	2
Total Charges to Appropriations	1,416,346	1,465,924	1,381,440	84,484
Budgetary Fund Balance, June 30	\$ 1,191,360	\$ 1,141,782	\$ 462,869	\$ (678,913)

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 SUSTAINABILITY
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,277,150	\$ 1,277,150	\$ 1,277,150	\$ -
Resources (Inflows)				
Charges for services	243,207	243,207	368,786	125,579
Use of money and property	4,000	4,000	2,470	(1,530)
Miscellaneous	-	150	150	-
Amounts Available for Appropriations	1,524,357	1,524,507	1,648,556	124,049
Charges to Appropriations (Outflow)				
Public works	99,607	461,810	110,144	351,666
Transfers out	138,900	138,900	147,600	(8,700)
Total Charges to Appropriations	238,507	600,710	257,744	342,966
Budgetary Fund Balance, June 30	\$ 1,285,850	\$ 923,797	\$ 1,390,812	\$ 467,015

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 SPECIAL GRANTS
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ (1,115)	\$ (1,115)	\$ (1,115)	\$ -
Resources (Inflows)				
Intergovernmental	175,000	312,500	235,876	(76,624)
Amounts Available for Appropriations	173,885	311,385	234,761	(76,624)
Charges to Appropriations (Outflow)				
Public safety	175,000	450,811	265,121	185,690
Library	-	7,555	7,500	55
Total Charges to Appropriations	175,000	458,366	272,621	185,745
Budgetary Fund Balance, June 30	\$ (1,115)	\$ (146,981)	\$ (37,860)	\$ 109,121

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 SMALL HOTEL TBID
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 197	\$ 197	\$ 197	\$ -
Resources (Inflows)				
Charges for services	325,000	525,000	464,728	(60,272)
Use of money and property	-	-	383	383
Amounts Available for Appropriations	325,197	525,197	465,308	(59,889)
Charges to Appropriations (Outflow)				
Public works	325,000	525,000	460,430	64,570
Total Charges to Appropriations	325,000	525,000	460,430	64,570
Budgetary Fund Balance, June 30	\$ 197	\$ 197	\$ 4,878	\$ 4,681

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 SB1-RMRA
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Charges for services	-	270,211	231,062	(39,149)
Use of money and property	-	-	1,002	1,002
Amounts Available for Appropriations	-	270,211	232,064	(38,147)
Charges to Appropriations (Outflow)				
Public works	-	270,211	270,211	-
Total Charges to Appropriations	-	270,211	270,211	-
Budgetary Fund Balance, June 30	\$ -	\$ -	\$ (38,147)	\$ (38,147)

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 CAPITAL PROJECTS
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 8,007,014	\$ 8,007,014	\$ 8,007,014	\$ -
Resources (Inflows)				
Licenses and permits	86,500	86,500	359,260	272,760
Intergovernmental	-	2,344,614	4,145,311	1,800,697
Use of money and property	-	-	(62,197)	(62,197)
Miscellaneous	-	3,158	3,158	-
Amounts Available for Appropriations	8,093,514	10,441,286	12,452,546	2,011,260
Charges to Appropriations (Outflow)				
General government	86,500	6,635,193	2,387,947	4,247,246
Public safety	-	1,584,851	842,338	742,513
Cultural and convention center	-	714,675	-	714,675
Parks and recreation	-	78,648	-	78,648
Public works	-	17,780,095	2,792,864	14,987,231
Total Charges to Appropriations	86,500	26,793,462	6,023,149	20,770,313
Budgetary Fund Balance, June 30	\$ 8,007,014	\$(16,352,176)	\$ 6,429,397	\$ 22,781,573

CITY OF PALM SPRINGS

BUDGETARY COMPARISON SCHEDULE
 PARKING PROJECTS
 YEAR ENDED JUNE 30, 2018

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 495,769	\$ 495,769	\$ 495,769	\$ -
Resources (Inflows)				
Use of money and property	2,000	2,000	16,339	14,339
Amounts Available for Appropriations	497,769	497,769	512,108	14,339
Charges to Appropriations (Outflow)				
Public works	2,000	492,760	181	492,579
Total Charges to Appropriations	2,000	492,760	181	492,579
Budgetary Fund Balance, June 30	\$ 495,769	\$ 5,009	\$ 511,927	\$ 506,918

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
MEASURE J
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 13,165,000	\$ 13,165,000	\$ 13,165,000	\$ -
Resources (Inflows)				
Use of money and property	-	-	22,723	22,723
Transfers in	-	-	14,993,495	14,993,495
Amounts Available for Appropriations	13,165,000	13,165,000	28,181,218	15,016,218
Charges to Appropriations (Outflow)				
Public works	10,507,287	24,072,283	8,567,776	15,504,507
Transfers out	-	-	3,200,000	(3,200,000)
Total Charges to Appropriations	10,507,287	24,072,283	11,767,776	12,304,507
Budgetary Fund Balance, June 30	\$ 2,657,713	\$ (10,907,283)	\$ 16,413,442	\$ 27,320,725

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
GENERAL DEBT SERVICE
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 3,346,355	\$ 3,346,355	\$ 3,346,355	\$ -
Resources (Inflows)				
Use of money and property	1,000	1,000	39,732	38,732
Transfers in	4,691,229	4,691,229	5,001,301	310,072
Amounts Available for Appropriations	8,038,584	8,038,584	8,387,388	348,804
Charges to Appropriations (Outflow)				
General government	36,221	36,221	10,375	25,846
Debt service:				
Principal retirement	5,553,210	4,290,228	3,880,559	409,669
Interest and fiscal charges	4,104,099	5,367,081	4,681,589	685,492
Transfers out	-	-	1,093,350	(1,093,350)
Total Charges to Appropriations	9,693,530	9,693,530	9,665,873	27,657
Budgetary Fund Balance, June 30	\$ (1,654,946)	\$ (1,654,946)	\$ (1,278,485)	\$ 376,461

CITY OF PALM SPRINGS

**BUDGETARY COMPARISON SCHEDULE
SPECIAL ASSESSMENTS
YEAR ENDED JUNE 30, 2018**

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 1,559,158	\$ 1,559,158	\$ 1,559,158	\$ -
Resources (Inflows)				
Assessments	595,863	595,863	574,096	(21,767)
Use of money and property	-	-	11,973	11,973
Amounts Available for Appropriations	2,155,021	2,155,021	2,145,227	(9,794)
Charges to Appropriations (Outflow)				
Public works	51,000	59,088	20,680	38,408
Debt service:				
Principal retirement	380,000	380,000	380,000	-
Interest and fiscal charges	164,863	164,863	164,863	-
Total Charges to Appropriations	595,863	603,951	565,543	38,408
Budgetary Fund Balance, June 30	\$ 1,559,158	\$ 1,551,070	\$ 1,579,684	\$ 28,614

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis.

The City of Palm Springs has the following Internal Service Funds:

Motor Vehicle Replacement Fund – To account for costs related to operations of the central garage and fleet maintenance system, which provides vehicles for most of the City departments. Costs are recovered through a monthly user fee charged to City departments.

Facilities Maintenance Fund – To account for costs related to operations and maintenance of City facilities. Costs are recovered through a monthly user fee charged to City departments using the service.

Employee Benefits Fund – To account for costs and liabilities related to public employees' retirement system and federal taxes. Costs are recovered through a monthly employee benefit charge based upon gross payroll.

Risk Management Fund – To account for costs and liabilities related to health, life, dental, disability, and public liability insurance coverage paid by the City on behalf of City employees and the City operating funds. Costs are recovered via monthly charges based upon gross payroll and benefits derived from insurance coverage.

Retiree Health Insurance Fund – To account for the costs of providing health insurance to qualifying retirees.

Cogeneration Plant Fund – To account for costs of the two cogeneration plants located in the City. Costs are recovered through a user fee based upon electrical consumption. These fees are charged to each department on a monthly basis.

CITY OF PALM SPRINGS

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2018

	<u>Motor Vehicle Replacement</u>	<u>Facilities Maintenance</u>	<u>Employee Benefits</u>	<u>Risk Management</u>
Assets				
Current:				
Cash and investments	\$ 4,233,533	\$ 3,756,497	\$ 1,498,004	\$ 9,122,604
Receivables:				
Accounts	-	-	-	334,851
Accrued interest	-	-	294,061	10,760
Inventories	139,094	-	-	-
Restricted:				
Cash with fiscal agent	-	-	-	-
Total Current Assets	4,372,627	3,756,497	1,792,065	9,468,215
Noncurrent:				
Advances to other funds	-	-	1,430,000	-
Capital assets, net of accumulated depreciation	7,859,478	154,004	-	-
Total Noncurrent Assets	7,859,478	154,004	1,430,000	-
Total Assets	12,232,105	3,910,501	3,222,065	9,468,215
Deferred Outflows of Resources				
Deferred charge on refunding	-	-	-	-
Deferred pension related items	290,736	658,145	-	297,703
Deferred OPEB related items	-	-	-	-
Total Deferred Outflows of Resources	290,736	658,145	-	297,703
Liabilities				
Current:				
Accounts payable	218,096	221,227	-	606,525
Accrued liabilities	17,161	35,726	-	14,692
Accrued interest	67,349	-	67,887	-
Accrued compensated absences	41,241	130,385	-	73,247
Accrued claims and judgments	-	-	-	3,540,646
Bonds, notes, and capital leases	326,361	-	605,000	-
Total Current Liabilities	670,208	387,338	672,887	4,235,110
Noncurrent:				
Accrued claims and judgments	-	-	-	5,859,072
Bonds, notes, and capital leases	3,365,430	-	19,406,558	-
Total OPEB liability	-	-	-	-
Net pension liability	1,676,755	3,288,269	-	1,307,583
Total Noncurrent Liabilities	5,042,185	3,288,269	19,406,558	7,166,655
Total Liabilities	5,712,393	3,675,607	20,079,445	11,401,765
Deferred Inflows of Resources				
Deferred pension related items	36,041	57,747	-	26,597
Deferred OPEB related items	-	-	-	-
Total Deferred Inflows of Resources	36,041	57,747	-	26,597
Net Position				
Net investment in capital assets	4,167,687	154,004	-	-
Restricted for debt service	-	-	-	-
Unrestricted	2,606,720	681,288	(16,857,380)	(1,662,444)
Total Net Position	\$ 6,774,407	\$ 835,292	\$ (16,857,380)	\$ (1,662,444)

CITY OF PALM SPRINGS

COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2018

	Retiree Health Insurance	Cogeneration Plant	Totals
Assets			
Current:			
Cash and investments	\$ 1,336,616	\$ 3,474,246	\$ 23,421,500
Receivables:			
Accounts	14,183	-	349,034
Accrued interest	1,656	-	306,477
Inventories	-	-	139,094
Restricted:			
Cash with fiscal agent	-	715,377	715,377
Total Current Assets	1,352,455	4,189,623	24,931,482
Noncurrent:			
Advances to other funds	-	-	1,430,000
Capital assets, net of accumulated depreciation	-	12,427,624	20,441,106
Total Noncurrent Assets	-	12,427,624	21,871,106
Total Assets	1,352,455	16,617,247	46,802,588
Deferred Outflows of Resources			
Deferred charge on refunding	-	40,631	40,631
Deferred pension related items	-	-	1,246,584
Deferred OPEB related items	3,480,420	-	3,480,420
Total Deferred Outflows of Resources	3,480,420	40,631	4,767,635
Liabilities			
Current:			
Accounts payable	1,957	815,097	1,862,902
Accrued liabilities	-	-	67,579
Accrued interest	-	122,275	257,511
Accrued compensated absences	-	-	244,873
Accrued claims and judgments	-	-	3,540,646
Bonds, notes, and capital leases	-	633,108	1,564,469
Total Current Liabilities	1,957	1,570,480	7,537,980
Noncurrent:			
Accrued claims and judgments	-	-	5,859,072
Bonds, notes, and capital leases	-	18,283,869	41,055,857
Total OPEB liability	141,642,158	-	141,642,158
Net pension liability	-	-	6,272,607
Total Noncurrent Liabilities	141,642,158	18,283,869	194,829,694
Total Liabilities	141,644,115	19,854,349	202,367,674
Deferred Inflows of Resources			
Deferred pension related items	-	-	120,385
Deferred OPEB related items	9,801,593	-	9,801,593
Total Deferred Inflows of Resources	9,801,593	-	9,921,978
Net Position			
Net investment in capital assets	-	5,362,955	9,684,646
Restricted for debt service	-	715,377	715,377
Unrestricted	(146,612,833)	(9,274,803)	(171,119,452)
Total Net Position	\$ (146,612,833)	\$ (3,196,471)	\$ (160,719,429)

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018

	Motor Vehicle Replacement	Facilities Maintenance	Employee Benefits	Risk Management
Operating Revenues				
Sales and service charges	\$ 3,359,512	\$ 4,846,033	\$ 18,543,902	\$ 14,619,991
Total Operating Revenues	3,359,512	4,846,033	18,543,902	14,619,991
Operating Expenses				
Administration and general	259,452	363,353	-	3,360,574
Source of supply	-	-	-	-
Maintenance operations	2,577,659	-	-	-
Facilities maintenance	-	3,765,126	1,250	-
Retirement	-	-	16,294,013	-
Retiree health insurance	-	-	-	-
Other claims and insurance	6,144	28,073	-	867,231
Depreciation expense	901,747	10,337	-	-
Utilities	-	-	-	-
Other charges and services	2,979	-	-	-
Cogeneration electricity	-	-	-	-
Medical, health, and life insurance	-	-	-	8,452,756
Workers compensation	-	-	-	3,631,709
Total Operating Expenses	3,747,981	4,166,889	16,295,263	16,312,270
Operating Income (Loss)	(388,469)	679,144	2,248,639	(1,692,279)
Nonoperating Revenues (Expenses)				
Interest revenue	(41,364)	(29,401)	(32,707)	16,078
Interest expense	(159,789)	-	(1,131,368)	-
Gain (loss) on disposal of capital assets	4,680	-	-	-
Total Nonoperating Revenues (Expenses)	(196,473)	(29,401)	(1,164,075)	16,078
Income (Loss) Before Transfers	(584,942)	649,743	1,084,564	(1,676,201)
Transfers in	-	-	-	487,511
Changes in Net Position	(584,942)	649,743	1,084,564	(1,188,690)
Net Position, Beginning of Year, as Previously Reported	7,513,617	185,549	(17,941,944)	(473,754)
Restatements	(154,268)	-	-	-
Net Position, Beginning of Year, as Restated	7,359,349	185,549	(17,941,944)	(473,754)
Net Position, End of Year	\$ 6,774,407	\$ 835,292	\$ (16,857,380)	\$ (1,662,444)

CITY OF PALM SPRINGS

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018

	<u>Retiree Health Insurance</u>	<u>Cogeneration Plant</u>	<u>Totals</u>
Operating Revenues			
Sales and service charges	\$ 2,929,888	\$ 2,086,742	\$ 46,386,068
Total Operating Revenues	2,929,888	2,086,742	46,386,068
Operating Expenses			
Administration and general	-	1,394	3,984,773
Source of supply	17,700	-	17,700
Maintenance operations	-	-	2,577,659
Facilities maintenance	-	-	3,766,376
Retirement	-	-	16,294,013
Retiree health insurance	5,333,605	-	5,333,605
Other claims and insurance	-	45,619	947,067
Depreciation expense	-	523,362	1,435,446
Utilities	-	1,199,154	1,199,154
Other charges and services	-	-	2,979
Cogeneration electricity	-	778,543	778,543
Medical, health, and life insurance	-	-	8,452,756
Workers compensation	-	-	3,631,709
Total Operating Expenses	5,351,305	2,548,072	48,421,780
Operating Income (Loss)	<u>(2,421,417)</u>	<u>(461,330)</u>	<u>(2,035,712)</u>
Nonoperating Revenues (Expenses)			
Interest revenue	4,549	(24,274)	(107,119)
Interest expense	-	(723,967)	(2,015,124)
Gain (loss) on disposal of capital assets	-	-	4,680
Total Nonoperating Revenues (Expenses)	4,549	(748,241)	(2,117,563)
Income (Loss) Before Transfers	<u>(2,416,868)</u>	<u>(1,209,571)</u>	<u>(4,153,275)</u>
Transfers in	-	1,240,950	1,728,461
Changes in Net Position	(2,416,868)	31,379	(2,424,814)
Net Position, Beginning of Year, as Previously Reported	<u>1,214,897</u>	<u>(3,227,850)</u>	<u>(12,729,485)</u>
Restatements	<u>(145,410,862)</u>	<u>-</u>	<u>(145,565,130)</u>
Net Position, Beginning of Year, as Restated	<u>(144,195,965)</u>	<u>(3,227,850)</u>	<u>(158,294,615)</u>
Net Position, End of Year	<u>\$ (146,612,833)</u>	<u>\$ (3,196,471)</u>	<u>\$ (160,719,429)</u>

CITY OF PALM SPRINGS

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>Motor Vehicle Replacement</u>	<u>Facilities Maintenance</u>	<u>Employee Benefits</u>	<u>Risk Management</u>
Cash Flows from Operating Activities				
Cash received from/(paid to) interfund service provided	\$ 3,205,244	\$ 4,846,033	\$ 18,543,902	\$ 14,548,129
Cash paid to suppliers for goods and services	(2,570,823)	(3,691,779)	(5,985)	(867,231)
Cash paid to employees for services	(134,296)	(197,131)	(16,294,013)	(15,499,937)
Cash received from (payments to) others	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>500,125</u>	<u>957,123</u>	<u>2,243,904</u>	<u>(1,819,039)</u>
Cash Flows from Non-Capital Financing Activities				
Cash transfers in	-	-	-	487,511
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>487,511</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from capital debt	4,037,059	-	-	-
Acquisition and construction of capital assets	(4,953,430)	(120,850)	-	-
Principal paid on capital debt	(401,970)	-	(236,383)	-
Interest paid on capital debt	(159,789)	-	(1,131,368)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,478,130)</u>	<u>(120,850)</u>	<u>(1,367,751)</u>	<u>-</u>
Cash Flows from Investing Activities				
Interest received	(35,234)	(29,401)	(32,403)	22,143
Net Cash Provided (Used) by Investing Activities	<u>(35,234)</u>	<u>(29,401)</u>	<u>(32,403)</u>	<u>22,143</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1,013,239)</u>	<u>806,872</u>	<u>843,750</u>	<u>(1,309,385)</u>
Cash and Cash Equivalents at Beginning of Year	5,246,772	2,949,625	654,254	10,431,989
Cash and Cash Equivalents at End of Year	<u>\$ 4,233,533</u>	<u>\$ 3,756,497</u>	<u>\$ 1,498,004</u>	<u>\$ 9,122,604</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ (388,469)	\$ 679,144	\$ 2,248,639	\$ (1,692,279)
Adjustments to Reconcile Operating Income (Loss) Net Cash Provided (Used) by Operating Activities				
Depreciation	901,747	10,337	-	-
(Increase) decrease in accounts receivable	(152,894)	-	-	(71,862)
(Increase) decrease in inventory	1,799	-	-	-
(Increase) decrease in deferred outflows	38,383	178,213	-	66,330
(Increase) decrease in deferred inflows	(82,192)	(248,406)	-	(98,659)
Increase (decrease) in accounts payable	14,160	73,347	(4,735)	146
Increase (decrease) in accrued liabilities	(2,437)	(4,825)	-	(21,832)
Increase (decrease) in unearned revenue	(1,374)	-	-	-
Increase (decrease) in net pension liability	173,615	278,171	-	128,121
Increase (decrease) in net OPEB liability	-	-	-	-
Increase (decrease) in claims and judgments	-	-	-	(146,526)
Increase (decrease) in compensated absences	(2,213)	(8,858)	-	17,522
Total Adjustments	<u>888,594</u>	<u>277,979</u>	<u>(4,735)</u>	<u>(126,760)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 500,125</u>	<u>\$ 957,123</u>	<u>\$ 2,243,904</u>	<u>\$ (1,819,039)</u>
Non-Cash Investing, Capital, and Financing Activities:				
Accreted interest	\$ -	\$ -	\$ 313,617	\$ -
Bond discount (premiuim) amortization	-	-	(17,816)	-
Deferred loss on refunding amortization	-	-	2,139	-

CITY OF PALM SPRINGS

COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018

	Retiree Health Insurance	Cogeneration Plant	Totals
Cash Flows from Operating Activities			
Cash received from/(paid to) interfund service provided	\$ 2,926,078	\$ 2,086,742	46,156,128
Cash paid to suppliers for goods and services	-	(1,996,061)	(9,131,879)
Cash paid to employees for services	-	(1,394)	(32,126,771)
Cash received from (payments to) others	(2,797,433)	(45,619)	(2,843,052)
Net Cash Provided (Used) by Operating Activities	128,645	43,668	2,054,426
Cash Flows from Non-Capital Financing Activities			
Cash transfers in	-	1,240,950	1,728,461
Net Cash Provided (Used) by Non-Capital Financing Activities	-	1,240,950	1,728,461
Cash Flows from Capital and Related Financing Activities			
Proceeds from capital debt	-	-	4,037,059
Acquisition and construction of capital assets	-	(7,997)	(5,082,277)
Principal paid on capital debt	-	(601,605)	(1,239,958)
Interest paid on capital debt	-	(722,291)	(2,013,448)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(1,331,893)	(4,298,624)
Cash Flows from Investing Activities			
Interest received	2,893	(24,274)	(96,276)
Net Cash Provided (Used) by Investing Activities	2,893	(24,274)	(96,276)
Net Increase (Decrease) in Cash and Cash Equivalents	131,538	(71,549)	(612,013)
Cash and Cash Equivalents at Beginning of Year	1,205,078	4,261,172	24,748,890
Cash and Cash Equivalents at End of Year	\$ 1,336,616	\$ 4,189,623	\$ 24,136,877
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (2,421,417)	\$ (461,330)	\$ (2,035,712)
Adjustments to Reconcile Operating Income (Loss) Net Cash Provided (Used) by Operating Activities			
Depreciation	-	523,362	1,435,446
(Increase) decrease in accounts receivable	(1,921)	-	(226,677)
(Increase) decrease in inventory	-	-	1,799
(Increase) decrease in deferred outflows	(3,480,420)	-	(3,197,494)
(Increase) decrease in deferred inflows	9,801,593	-	9,372,336
Increase (decrease) in accounts payable	1,403	(18,364)	65,957
Increase (decrease) in accrued liabilities	-	-	(29,094)
Increase (decrease) in unearned revenue	(1,889)	-	(3,263)
Increase (decrease) in net pension liability	-	-	579,907
Increase (decrease) in net OPEB liability	(3,768,704)	-	(3,768,704)
Increase (decrease) in claims and judgments	-	-	(146,526)
Increase (decrease) in compensated absences	-	-	6,451
Total Adjustments	2,550,062	504,998	4,090,138
Net Cash Provided (Used) by Operating Activities	\$ 128,645	\$ 43,668	\$ 2,054,426
Non-Cash Investing, Capital, and Financing Activities:			
Accreted interest	\$ -	\$ -	\$ 313,617
Bond discount (premiuim) amortization	-	-	(17,816)
Deferred loss on refunding amortization	-	-	2,139

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FIDUCIARY FUNDS

Fiduciary Funds account for assets held by a governmental entity for other parties, as trustee or as an agent, which cannot be used to finance a governmental entity's own operating programs. Fiduciary Funds include the following:

Special Deposits Agency Fund – To account for monies held in trust by the City for various purposes ranging from bid bonds to donations for animal shelter activities.

CITY OF PALM SPRINGS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 YEAR ENDED JUNE 30, 2018

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
<u>Special Deposits</u>				
Assets				
Pooled cash and investments	\$ 1,971,467	\$ 533,844	\$ 982,220	\$ 1,523,091
Total Assets	<u>\$ 1,971,467</u>	<u>\$ 533,844</u>	<u>\$ 982,220</u>	<u>\$ 1,523,091</u>
Liabilities				
Deposits payable	\$ 1,971,467	\$ 533,844	\$ 982,220	\$ 1,523,091
Total Liabilities	<u>\$ 1,971,467</u>	<u>\$ 533,844</u>	<u>\$ 982,220</u>	<u>\$ 1,523,091</u>

COMPREHENSIVE ANNUAL FINANCIAL REPORT



STATISTICAL SECTION
FISCAL YEAR ENDED JUNE 30, 2018

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CITY OF PALM SPRINGS
FINANCIAL STATEMENTS
JUNE 30, 2018
STATISTICAL SECTION

This part of the City of Palm Springs comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, and note disclosures says about the government's overall financial health.

TABLE OF CONTENTS

	<u>PAGE</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	156-160
Revenue Capacity	
These schedules contain trend information to help the reader assess the government's most significant current local revenue source, the property tax.	161-167
Debt Capacity	
These schedules contain present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	168-174
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	176-178
Operating Information	
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	179-180

CITY OF PALM SPRINGS

**Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Governmental activities:										
Net investment in capital assets	\$ 141,219,883	\$ 120,745,654	\$ 126,124,062	\$ 106,475,801	\$ 107,217,515	\$ 119,129,764	\$ 124,797,484	\$ 92,188,168	\$ 73,197,631	\$ 73,048,922
Restricted	37,220,218	41,363,491	41,633,373	50,159,957	64,475,152	59,250,531	53,290,867	59,544,531	63,883,617	65,682,688
Unrestricted	<u>(212,859,813)</u>	<u>(104,511,647)</u>	<u>(103,317,463)</u>	<u>(102,730,809)</u>	<u>9,032,025</u>	<u>8,263,055</u>	<u>7,603,335</u>	<u>10,785,032</u>	<u>19,934,024</u>	<u>34,860,168</u>
Total governmental activities net position	<u>\$ (34,419,712)</u>	<u>\$ 57,597,498</u>	<u>\$ 64,439,972</u>	<u>\$ 53,904,949</u>	<u>\$ 180,724,692</u>	<u>\$ 186,643,350</u>	<u>\$ 185,691,686</u>	<u>\$ 162,517,731</u>	<u>\$ 157,015,272</u>	<u>\$ 173,591,778</u>
Business-type activities:										
Net investment in capital assets	\$ 104,660,531	\$ 102,297,901	\$ 98,280,993	\$ 90,467,867	\$ 90,775,976	\$ 82,089,205	\$ 86,255,293	\$ 88,813,375	\$ 94,457,741	\$ 102,404,738
Restricted	4,884,179	4,022,467	5,307,758	4,125,236	4,038,239	4,777,681	4,024,930	4,026,199	4,288,145	3,633,197
Unrestricted	<u>42,880,602</u>	<u>33,781,069</u>	<u>30,918,220</u>	<u>22,023,465</u>	<u>34,234,038</u>	<u>29,620,437</u>	<u>25,605,934</u>	<u>27,502,074</u>	<u>27,247,535</u>	<u>24,737,228</u>
Total business-type activities net position	<u>\$ 152,425,312</u>	<u>\$ 140,101,437</u>	<u>\$ 134,506,971</u>	<u>\$ 116,616,568</u>	<u>\$ 129,048,253</u>	<u>\$ 116,487,323</u>	<u>\$ 115,886,157</u>	<u>\$ 120,341,648</u>	<u>\$ 125,993,421</u>	<u>\$ 130,775,163</u>
Primary government:										
Net investment in capital assets	\$ 245,880,414	\$ 223,043,555	\$ 224,405,055	\$ 196,943,668	\$ 197,993,491	\$ 201,218,969	\$ 211,052,777	\$ 181,001,543	\$ 167,655,372	\$ 175,453,660
Restricted	42,104,397	45,385,958	46,941,131	54,285,193	68,513,391	64,028,212	57,315,797	63,570,730	68,171,762	69,315,885
Unrestricted	<u>(169,979,211)</u>	<u>(70,730,578)</u>	<u>(72,399,243)</u>	<u>(80,707,344)</u>	<u>43,266,063</u>	<u>37,883,492</u>	<u>33,209,269</u>	<u>38,287,106</u>	<u>47,181,559</u>	<u>59,597,396</u>
Total primary government net position	<u>\$ 118,005,600</u>	<u>\$ 197,698,935</u>	<u>\$ 198,946,943</u>	<u>\$ 170,521,517</u>	<u>\$ 309,772,945</u>	<u>\$ 303,130,673</u>	<u>\$ 301,577,843</u>	<u>\$ 282,859,379</u>	<u>\$ 283,008,693</u>	<u>\$ 304,366,941</u>

Source: City of Palm Springs, Finance Department

CITY OF PALM SPRINGS

**Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Expenses:										
Governmental activities:										
General government	\$ 24,668,184	\$ 19,998,488	\$ 11,759,819	\$ 14,353,882	\$ 17,734,430	\$ 11,981,549	\$ 11,680,752	\$ 10,149,638	\$ 11,784,609	\$ 15,700,926
Public safety	55,465,639	49,397,778	45,219,115	42,911,251	42,041,061	38,070,130	36,489,937	36,069,196	39,310,585	38,382,590
Cultural and convention center	7,473,990	7,454,099	8,293,582	8,041,954	6,884,266	7,482,648	7,638,730	7,651,982	7,369,435	7,693,125
Parks and recreation	10,412,411	9,902,789	7,756,225	9,008,961	8,832,666	12,150,464	9,728,209	8,903,287	7,052,825	9,532,099
Public works	20,620,601	33,476,271	27,299,586	26,799,641	26,594,799	14,674,398	36,660,915	22,102,401	25,469,426	21,959,270
Library	3,196,140	3,238,731	2,909,766	2,308,501	2,718,241	2,125,382	2,168,904	2,265,212	2,041,643	2,937,321
Interest on long-term debt	6,640,855	6,856,841	6,657,372	7,153,434	5,435,432	5,565,437	7,553,342	9,183,561	11,967,641	14,636,613
Total governmental activities expenses	<u>128,477,820</u>	<u>130,324,997</u>	<u>109,895,465</u>	<u>110,577,624</u>	<u>110,240,895</u>	<u>92,050,008</u>	<u>111,920,789</u>	<u>96,325,277</u>	<u>104,996,164</u>	<u>110,841,944</u>
Business-type activities:										
Airport	28,715,596	28,961,927	25,300,163	25,811,396	25,580,134	25,581,945	24,990,169	24,526,812	24,586,610	24,637,583
Wastewater	7,455,920	7,009,637	6,539,225	6,693,464	7,118,541	5,711,562	5,967,510	5,863,229	6,126,747	5,854,655
Golf Course	5,208,536	5,141,317	4,972,995	5,370,771	5,527,984	5,948,442	5,662,881	5,441,285	5,153,882	5,374,561
Total business-type activities expenses	<u>41,380,052</u>	<u>41,112,881</u>	<u>36,812,383</u>	<u>37,875,631</u>	<u>38,226,659</u>	<u>37,241,947</u>	<u>36,620,560</u>	<u>35,831,326</u>	<u>35,867,239</u>	<u>35,866,799</u>
Total primary government expenses	<u>169,857,872</u>	<u>171,437,878</u>	<u>146,707,848</u>	<u>148,453,255</u>	<u>148,467,554</u>	<u>129,291,957</u>	<u>148,541,349</u>	<u>132,156,603</u>	<u>140,863,403</u>	<u>146,708,743</u>
Program revenues:										
Governmental activities:										
Charges for services:										
General government	5,784,465	4,966,153	4,019,379	4,151,215	3,640,512	3,552,667	3,517,758	3,606,184	3,904,814	1,868,359
Public safety	4,352,932	3,789,214	3,401,378	3,256,962	2,930,416	2,843,908	2,878,838	2,847,413	3,072,280	1,922,028
Cultural and convention center	157,769	-	113	-	-	-	-	-	-	359,103
Parks and recreation	1,913,540	1,921,560	1,747,440	1,911,290	1,775,662	1,614,526	1,370,673	1,376,238	1,223,793	1,823,445
Public works	6,956,478	5,794,610	5,972,587	4,344,298	6,339,972	4,582,804	4,045,121	4,359,177	2,644,951	3,249,898
Library	28,287	37,753	42,655	41,075	38,517	38,172	59,501	42,727	42,126	124,726
Operating grants and contributions	3,829,388	2,879,858	4,082,086	3,469,962	5,861,447	5,192,616	7,381,835	6,886,447	6,425,017	9,480,506
Capital grants and contributions	2,633,028	4,188,835	6,823,197	2,936,236	1,448,409	5,093,264	16,382,186	13,271,770	3,212,335	6,269,961
Total governmental activities program revenues	<u>25,655,887</u>	<u>23,577,983</u>	<u>26,088,835</u>	<u>20,111,038</u>	<u>22,034,935</u>	<u>22,917,957</u>	<u>35,635,912</u>	<u>32,389,956</u>	<u>20,525,316</u>	<u>25,098,026</u>
Business-type activities:										
Charges for services:										
Airport	28,134,244	25,621,382	24,352,244	23,900,962	23,017,582	21,745,074	20,342,504	18,747,127	18,998,409	18,465,121
Wastewater	12,785,023	11,771,816	10,667,824	9,524,542	8,220,813	7,019,449	5,965,340	6,045,209	5,928,827	6,006,812
Golf Course	4,526,664	4,317,981	4,234,555	4,836,445	4,519,169	4,850,343	5,046,766	4,832,305	4,687,694	4,130,497
Operating grants and contributions	-	-	-	-	-	-	-	29,056	-	-
Capital grants and contributions	3,769,554	1,519,902	13,405,121	2,180,401	11,788,567	2,290,385	2,315,123	483,618	523,239	10,051,905
Total business-type activities program revenues	<u>49,215,485</u>	<u>43,231,081</u>	<u>52,659,744</u>	<u>40,442,350</u>	<u>47,546,131</u>	<u>35,905,251</u>	<u>33,669,733</u>	<u>30,137,315</u>	<u>30,138,169</u>	<u>38,654,335</u>
Total primary government program revenues	<u>74,871,372</u>	<u>66,809,064</u>	<u>78,748,579</u>	<u>60,553,388</u>	<u>69,581,066</u>	<u>58,823,208</u>	<u>69,305,645</u>	<u>62,527,271</u>	<u>50,663,485</u>	<u>63,752,361</u>

CITY OF PALM SPRINGS

**Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	(continued)	(continued)	(continued)	(continued)	(continued)	(continued)	(continued)	(continued)	(continued)	(continued)
Net revenues (expenses):										
Governmental activities	(102,821,933)	(106,747,014)	(83,806,630)	(90,466,586)	(88,205,960)	(69,132,051)	(76,284,877)	(63,935,321)	(84,470,848)	(85,743,918)
Business-type activities	7,835,433	2,118,200	15,847,361	2,566,719	9,319,472	(1,336,698)	(2,950,827)	(5,694,011)	(5,729,070)	2,787,536
Total net revenues (expenses)	<u>(94,986,500)</u>	<u>(104,628,814)</u>	<u>(67,959,269)</u>	<u>(87,899,867)</u>	<u>(78,886,488)</u>	<u>(70,468,749)</u>	<u>(79,235,704)</u>	<u>(69,629,332)</u>	<u>(90,199,918)</u>	<u>(82,956,382)</u>
General revenues and other changes in net position:										
Governmental activities:										
Taxes:										
Property taxes	31,291,584	24,535,870	22,245,363	21,294,978	21,065,170	18,655,013	24,229,315	25,786,509	24,547,656	30,747,373
Sales tax	32,956,508	30,971,801	27,681,241	25,367,807	24,113,415	21,948,058	12,130,059	9,633,250	8,221,763	8,796,538
Transient occupancy taxes	34,241,233	28,591,763	25,814,526	24,695,585	22,249,462	19,396,331	17,874,173	15,731,036	13,370,831	12,753,078
Other taxes	12,777,836	13,111,478	12,939,461	14,687,706	14,142,596	13,840,763	13,070,963	12,533,135	12,185,850	10,709,406
Motor vehicle in lieu, unrestricted	24,940	4,492,728	4,209,089	3,920,259	3,673,718	3,537,631	3,505,007	3,797,122	3,942,507	4,180,689
Use of money and property	1,600,566	1,557,326	2,176,122	2,211,049	2,336,973	1,217,844	1,583,805	860,532	5,537,407	1,610,201
Other general revenues	133,067	68,720	85,881	54,954	80,795	178,958	117,096	203,793	28,328	7,241,006
Gain on sale of capital asset	4,680	-	-	86,492	(238,179)	161,770	-	-	-	-
Extraordinary gain/(loss)	-	-	-	-	(2,585,890)	(6,935,586)	31,771,682	-	-	-
Transfers	(725,601)	(2,245,997)	(810,030)	(412,270)	(2,550,758)	(1,952,165)	2,450	589,848	(500,000)	(2,140,000)
Total governmental activities	<u>112,304,813</u>	<u>101,083,689</u>	<u>94,341,653</u>	<u>91,906,560</u>	<u>82,287,302</u>	<u>70,048,617</u>	<u>104,284,550</u>	<u>69,135,225</u>	<u>67,334,342</u>	<u>73,898,291</u>
Business-type activities:										
Use of money and property	129,407	163,540	323,896	299,716	526,158	(122,318)	333,192	336,189	436,926	900,328
Other revenue	1,932,378	917,966	909,116	986,504	164,542	182,232	161,417	295,897	10,402	1,150
Extraordinary gain/(loss)	-	-	-	-	-	(74,215)	(1,227,000)	-	-	-
Transfers	725,601	2,245,997	810,030	412,270	2,550,758	1,952,165	(2,450)	(589,848)	500,000	2,140,000
Total business-type activities	<u>2,787,386</u>	<u>3,327,503</u>	<u>2,043,042</u>	<u>1,698,490</u>	<u>3,241,458</u>	<u>1,937,864</u>	<u>(734,841)</u>	<u>42,238</u>	<u>947,328</u>	<u>3,041,478</u>
Total primary government	<u>115,092,199</u>	<u>104,411,192</u>	<u>96,384,695</u>	<u>93,605,050</u>	<u>85,528,760</u>	<u>71,986,481</u>	<u>103,549,709</u>	<u>69,177,463</u>	<u>68,281,670</u>	<u>76,939,769</u>
Changes in net position										
Governmental activities	9,482,880	(5,663,325)	10,535,023	1,439,974	(5,918,658)	916,566	27,999,673	5,199,904	(17,136,506)	(11,845,627)
Business-type activities	10,622,819	5,445,703	17,890,403	4,265,209	12,560,930	601,166	(3,685,668)	(5,651,773)	(4,781,742)	5,829,014
Total primary government	<u>\$ 20,105,699</u>	<u>\$ (217,622)</u>	<u>\$ 28,425,426</u>	<u>\$ 5,705,183</u>	<u>\$ 6,642,272</u>	<u>\$ 1,517,732</u>	<u>\$ 24,314,005</u>	<u>\$ (451,869)</u>	<u>\$ (21,918,248)</u>	<u>\$ (6,016,613)</u>

Source: City of Palm Springs, Finance Department

CITY OF PALM SPRINGS

**Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	2018	2017	2016	2015	2014	2013	2012	2011 *	2010	2009
General fund:										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,913,779	\$ 5,664,944
Unreserved	-	-	-	-	-	-	-	-	6,730,561	7,055,671
Nonspendable	3,019,428	3,019,428	3,019,428	3,919,428	3,019,428	3,670,535	1,410,000	3,015,000	-	-
Assigned	9,673,725	8,002,942	7,884,694	6,850,022	7,060,894	6,442,546	5,333,035	3,932,735	-	-
Unassigned	<u>37,617,037</u>	<u>21,548,391</u>	<u>18,545,979</u>	<u>14,985,654</u>	<u>13,199,370</u>	<u>12,803,298</u>	<u>13,041,689</u>	<u>11,779,373</u>	-	-
Total general fund	\$ <u>50,310,190</u>	\$ <u>32,570,761</u>	\$ <u>29,450,101</u>	\$ <u>25,755,104</u>	\$ <u>23,279,692</u>	\$ <u>22,916,379</u>	\$ <u>19,784,724</u>	\$ -	\$ <u>10,644,340</u>	\$ <u>12,720,615</u>
All other governmental funds:										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 66,575,321	\$ 55,281,667
Unreserved, reported in:										
Debt Service	-	-	-	-	-	-	-	-	(4,740,053)	-
Special revenue funds	-	-	-	-	-	-	-	-	11,031,984	7,903,147
Capital projects funds	-	-	-	-	-	-	-	-	1,299,214	23,370,030
Nonspendable	-	-	-	-	-	11,188,905	12,324,620	13,290,989	-	-
Restricted	37,220,218	41,363,491	41,633,373	50,159,957	64,475,152	48,061,626	40,966,247	46,253,542	-	-
Committed	-	-	-	-	-	-	-	1,568,370	-	-
Assigned	23,354,766	21,667,783	14,227,585	14,344,936	2,446,752	3,657,054	1,216,595	2,961,717	-	-
Unassigned	<u>(2,174,918)</u>	<u>(476,099)</u>	<u>(23,156)</u>	<u>(52,112)</u>	<u>(23,463)</u>	<u>(184,499)</u>	<u>(154,048)</u>	<u>(5,352,857)</u>	-	-
Total all other governmental funds	\$ <u>58,400,066</u>	\$ <u>62,555,175</u>	\$ <u>55,837,802</u>	\$ <u>64,452,781</u>	\$ <u>66,898,441</u>	\$ <u>62,723,086</u>	\$ <u>54,353,414</u>	\$ <u>58,721,761</u>	\$ <u>74,166,466</u>	\$ <u>86,554,844</u>

* The City implemented GASB 54 in 2011 and as a result has classified fund balance differently than in previous years.

Source: City of Palm Springs, Finance Department

CITY OF PALM SPRINGS

**Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues:										
Taxes	\$ 111,267,161	\$ 97,210,912	\$ 88,680,591	\$ 86,046,076	\$ 83,019,658	\$ 75,222,872	\$ 68,653,101	\$ 72,408,230	\$ 72,253,106	\$ 72,269,596
Assessments	1,696,779	-	-	-	-	-	-	-	-	-
Licenses and permits	6,387,567	5,726,357	4,734,400	4,338,884	4,223,695	3,066,526	2,913,367	3,119,482	2,714,339	3,068,452
Fines and penalties	140,911	251,091	122,741	283,767	127,672	98,971	104,838	107,824	270,853	824,131
Use of money and property	1,707,685	1,550,825	2,069,955	2,130,949	2,214,740	1,287,277	2,006,106	2,349,620	5,004,081	7,485,174
Intergovernmental	6,135,903	15,115,053	8,275,642	9,881,576	8,499,575	13,397,351	27,264,100	20,914,362	10,338,051	15,049,300
Charges for services	11,208,428	9,854,967	8,843,238	8,671,389	8,632,034	7,750,886	7,036,034	7,068,669	6,715,640	5,038,889
Other	1,164,310	2,156,777	3,194,910	2,817,116	873,125	1,322,686	1,292,222	3,265,240	2,929,498	5,496,259
Total revenues	139,708,744	131,865,982	115,921,477	114,169,757	107,590,499	102,146,569	109,269,768	109,233,427	100,225,568	109,231,801
Expenditures										
Current:										
General government	22,983,718	17,186,130	14,514,121	12,639,548	17,145,827	10,885,046	10,863,967	9,562,837	11,362,793	14,090,558
Public safety	45,857,964	44,040,288	39,880,252	38,169,200	36,640,786	35,327,922	35,192,757	32,864,416	38,472,546	38,116,499
Cultural and convention center	4,437,893	4,034,038	5,140,410	4,912,242	3,946,726	4,342,391	4,437,725	4,450,885	4,235,131	6,357,377
Parks and recreation	9,600,331	8,970,655	8,775,698	8,664,379	8,423,471	11,958,245	8,969,751	8,772,280	7,725,705	8,608,714
Public works	27,255,537	28,044,863	37,018,361	30,083,326	20,799,856	15,474,824	74,063,752	40,578,391	23,473,774	23,788,035
Library	2,818,197	2,839,703	2,694,753	3,194,262	2,552,786	2,428,937	2,073,757	2,290,305	2,177,906	2,924,851
Debt service:										
Principal retirement	5,652,364	5,657,193	12,266,638	5,219,260	4,444,570	4,264,596	3,799,784	3,799,956	4,264,044	3,793,289
Interest and fiscal charges	5,064,358	6,069,043	5,888,573	5,587,476	4,647,051	4,618,428	6,579,560	7,966,940	10,710,691	13,088,973
Payment to bond escrow	-	-	-	7,145,057	-	-	-	-	-	-
Pass-through payments	-	-	-	-	-	-	1,948,429	7,201,757	12,027,631	7,440,446
Total expenditures	123,670,362	116,841,913	126,178,806	115,614,750	98,601,073	89,300,389	147,929,482	117,487,767	114,450,221	118,208,742
Excess (deficiency) of revenues over (under) expenditures	16,038,382	15,024,069	(10,257,329)	(1,444,993)	8,989,426	12,846,180	(38,659,714)	(8,254,340)	(14,224,653)	(8,976,941)
Other financing sources (uses):										
Transfers in	21,227,794	22,671,479	22,844,245	20,793,279	18,329,676	15,850,073	8,756,658	9,726,647	28,298,755	20,150,156
Transfers out	(23,681,856)	(27,882,476)	(24,193,175)	(25,785,113)	(22,780,434)	(17,802,238)	(8,754,208)	(9,136,799)	(29,098,755)	(23,140,156)
Debt issued	-	1,120,195	5,680,000	58,440,000	-	490,000	68,945,000	-	-	3,366,478
Bond premium	-	105,301	1,006,277	5,376,988	-	-	2,361,102	-	-	-
Bond discount	-	-	-	(59,946)	-	-	-	-	-	-
Proceeds from sale of asset	-	-	-	-	-	-	-	-	-	(77,303)
Payment to refunded bond escrow agent	-	(1,200,535)	-	(55,790,463)	-	-	(24,264,400)	-	-	-
Total other financing sources (uses)	(2,454,062)	(5,186,036)	5,337,347	2,974,745	(4,450,758)	(1,462,165)	47,044,152	589,848	(800,000)	299,175
Extraordinary gain/loss	-	-	-	-	-	(323,409)	(11,303,318)	-	-	-
Net change in fund balances	\$ 13,584,320	\$ 9,838,033	\$ (4,919,982)	\$ 1,529,752	\$ 4,538,668	\$ 11,060,606	\$ (2,918,880)	\$ (7,664,492)	\$ (15,024,653)	\$ (8,677,766)
Capital outlay included in current expenditures	\$ 14,545,855	\$ 1,970,021	\$ 20,251,033	\$ 12,074,642	\$ 3,538,377	\$ 8,926,703	\$ 48,406,654	\$ 27,603,363	\$ 7,895,886	\$ 9,826,194
Debt service as a percentage of noncapital expenditures	9.8%	10.2%	17.1%	17.3%	9.6%	11.1%	12.4%	21.1%	25.3%	22.4%

Source: City of Palm Springs, Finance Department

CITY OF PALM SPRINGS

Assessed Value and Estimated Actual Value of Taxable Property Last Ten Fiscal Years (in thousands of dollars)

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Other (Note 2)	Total Net Taxable Assessed Value	Total Direct Rate
2009	\$ 5,889,013	\$ 1,099,120	\$ 197,160	\$ 3,062,564	\$ 10,247,857	0.37569
2010	5,527,341	1,168,445	196,399	2,839,637	9,731,822	0.38182
2011	5,239,135	1,034,191	193,415	2,728,132	9,194,873	0.37482
2012	5,143,126	962,594	193,140	2,562,149	8,861,009	0.36581
2013	5,190,305	995,874	192,704	2,522,431	8,901,314	0.35452
2014	5,664,830	1,008,814	188,103	2,845,274	9,707,021	0.22399
2015	6,255,962	1,014,168	182,092	2,523,552	9,975,774	0.22389
2016	7,914,314	1,915,819	640	345,403	10,176,176	0.22716
2017	8,537,372	1,933,515	790	355,104	10,826,781	0.02754
2018	9,301,435	2,209,151	790	382,894	11,894,270	0.22716

NOTE:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of the property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

Note 2: Includes government owned, institutional, miscellaneous, recreational, vacant, SBE Nonunitary, cross reference, unsecured, exempt, and unknown.

Source: Riverside County Assessor data, MuniServices, LLC

CITY OF PALM SPRINGS

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Rate per \$100 of Assessed Value)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Basic Levy (Note 1)	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
Overlapping Rates (Note 2)										
Coachella Valley Water District	0.10000	0.10000	0.10000	0.10000	0.10000	0.08000	0.08000	0.08000	0.06000	0.04000
Desert Community College	0.04030	0.02036	0.02087	0.02325	0.01995	0.01995	0.01995	0.01995	0.01995	0.01995
Palm Springs Unified B & I 1992-A	<u>0.11146</u>	<u>0.11802</u>	<u>0.08978</u>	<u>0.10160</u>	<u>0.12961</u>	<u>0.09351</u>	<u>0.10451</u>	<u>0.13224</u>	<u>0.12628</u>	<u>0.06007</u>
Total Direct and Overlapping Tax Rates	<u>1.25176</u>	<u>1.23838</u>	<u>1.21065</u>	<u>1.22485</u>	<u>1.24956</u>	<u>1.19346</u>	<u>1.20446</u>	<u>1.23219</u>	<u>1.20623</u>	<u>1.12002</u>
City Share of 1% Levy (Note 3)	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>	<u>0.27505</u>
Redevelopment Rate (Note 4)	-	-	-	-	-	-	1.08000	1.08000	1.08000	1.08000
Total Direct Rate (Note 5)	<u>0.22716</u>	<u>0.22716</u>	<u>0.22716</u>	<u>0.22389</u>	<u>0.22399</u>	<u>0.35452</u>	<u>0.36581</u>	<u>0.37482</u>	<u>0.38182</u>	<u>0.37569</u>

Note 1: In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. The 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.

Note 2: Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all City property owners.

Note 3: City's share of 1% Levy is based on the City's share of the general fund tax rate area within the largest net taxable value within the City. ERAF general fund tax shifts may not be included in tax ratio figures.

Note 4: RDA Rate is based on the largest RDA tax rate area (TRA) and includes only rate(s) from indebtedness adopted prior to 1989 per California statute. RDA direct and overlapping rates are applied only to the incremental property values.

Note 5: Total Direct Rate is the weighted average of all individual direct rates applied to by the government preparing the statistical section information and excludes revenues derived from aircraft. Beginning in 2013/14 the Total Direct Rate no longer includes revenue generated from the former redevelopment tax rate areas. Challenges to recognized enforceable obligations are assumed

Source: County Auditor/Controller data, MuniServices, LLC

CITY OF PALM SPRINGS

**Principal Property Tax Payers
Current Year and Nine Years ago**

<u>Taxpayer</u>	<u>2018</u>		<u>2009</u>	
	<u>Taxable Assessed Value</u>	<u>Percent of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Percent of Total City Taxable Assessed Value</u>
Tenet Healthsystem Desert Inc.	102,224,757	0.84%	39,201,730	0.38%
Mountain View Power Partners I	67,190,690	0.55%		
Tkg Smoke Tree	65,150,763	0.54%		
Windpower Partners 1993 Lp	58,229,199	0.48%		
Endure Inv	54,690,328	0.45%	86,190,157	0.84%
Avalon 1150	50,999,987	0.42%		
Agre Dcp Palm Springs	44,794,506	0.37%		
Hh Palm Springs	42,279,624	0.35%	30,000,000	0.29%
Skywest Airlines Inc.	39,932,158	0.33%	25,627,338	0.25%
Alaska Airlines Inc.	33,505,115	0.28%		
Wal Mart Real Estate Business	33,411,780	0.27%	43,915,000	0.43%
Vista Mirage Interval Owners A	31,955,930	0.26%		
Walter Hotel Corp	26,400,000	0.22%	22,368,600	0.22%
American Airlines	26,316,727	0.22%		
Pacific Monarch Resorts Inc.	26,227,000	0.22%	29,476,078	0.29%
Parker Palm Springs Ii	23,413,720	0.19%		
Palm Springs Land	21,930,000	0.18%		
Wr Palm Mountain Resort	21,909,022	0.18%		
Rbd Hotel Palm Springs	21,567,125	0.18%		
Medical Properties Ii Palm Spr	20,037,988	0.16%		
Desert Flower Apts Owner	19,966,627	0.16%		
Grp Aviation LLC	19,343,000	0.16%		
Iron Quarter Palm Springs	17,800,000	0.15%		
Standard Pacific Corp	17,454,599	0.14%	40,700,747	0.40%
Clp Palm Springs Ca Waterpark	16,777,694	0.14%		
Time Warner Entertainment Adva			105,173,838	1.03%
Usa Bia			56,597,760	0.55%
Netjets Aviation Inc.			53,716,258	0.53%
Smoke Tree Inc			48,064,602	0.47%
Psh Holdings Inc.			35,735,277	0.35%
Drw Financial Inc.			35,704,234	0.35%
Psmhop			35,465,776	0.35%
L & S Dev Co			33,386,051	0.33%
Tree Moss Partners			31,433,015	0.31%
Wessman Holdings			23,038,260	0.23%
Reincarnate Riviera			22,699,385	0.22%
Desert Sun Publishing Co			21,597,652	0.21%
Suncal Psv			21,557,744	0.21%
Landsource Holdingco			20,998,982	0.21%
U Store It Lp			20,808,000	0.20%
San Gorgonio Westwinds Ii LLC			20,324,343	0.20%
Crv Palm Springs			20,217,686	0.20%
Total Top 25 Taxpayers	<u>\$ 903,508,339</u>	<u>7.43%</u>	<u>\$ 923,998,513</u>	<u>9.04%</u>
Total Taxable Value*	<u>\$ 12,159,350,374</u>	<u>100.00%</u>	<u>\$ 10,225,023,651</u>	<u>100.00%</u>

The amounts shown above include assessed value data for the City

Source: MuniServices, LLC

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CITY OF PALM SPRINGS

**Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2009		1	0.00%	1		0.00%
2010	37,164,518	34,897,314	93.90%	1,377,973	36,275,287	97.61%
2011	36,589,289	33,749,104	92.24%	617,134	34,366,238	93.92%
2012	31,699,331	26,581,718	83.86%	1,613,650	28,195,368	88.95%
2013	34,832,425	27,301,032	78.38%	1,440,591	28,741,623	82.51%
2014	35,213,010	33,764,807	95.89%	1,432,979	35,197,786	99.96%
2015	34,215,678	32,782,699	95.81%	1,452,247	34,234,946	100.06%
2016	38,459,265	37,007,018	96.22%	1,635,157	38,642,175	100.48%
2017	43,978,592	40,100,275	91.18%	1,121,580	41,221,855	93.73%
2018	46,794,948	43,474,760	92.90%	1,099,304	44,574,064	95.25%

NOTE:

The amounts presented include City property taxes. This schedule also includes amounts collected by the City that were passed-through to other agencies.

Source: City of Palm Springs, Finance Department

1 - County of Riverside was unable to provide this information.

**CITY OF PALM SPRINGS
HISTORICAL SALES TAX AMOUNTS BY BENCHMARK YEAR**

CATEGORY NAME	2018 Q1	2017 Q1	2016 Q1	2015 Q1	2014 Q1	2013 Q1	2012 Q1	2011 Q1	2010 Q1
Accommodation and Food Services	\$ 3,548,868	\$ 3,192,776	\$ 2,982,339	\$ 2,754,896	\$ 2,563,126	\$ 2,325,019	\$ 2,239,880	\$ 1,986,555	\$ 1,913,559
Agriculture, Forestry, Fishing and Hunting	79,824	63,569	58,350	72,687	67,077	91,469	90,471	60,294	25,964
Arts, Entertainment, and Recreation	52,838	54,742	54,524	55,399	57,134	49,627	42,464	33,707	31,718
Construction	110,350	84,890	92,795	88,980	77,188	58,899	87,343	79,182	54,881
Educational Services	27,466	11,177	10,861	12,520	12,640	13,270	11,274	14,048	16,702
Information	110,770	106,794	111,655	107,345	117,275	107,384	91,858	89,682	85,923
Manufacturing	345,563	372,628	386,264	390,184	339,399	306,851	320,725	273,134	271,490
Mining, Quarrying, and Oil and Gas Extraction	193,045	128,929	92,186	224,168	243,132	345,720	331,540	253,091	209,110
Other Services (except Public Administration)	42,005	41,410	43,693	30,684	31,345	30,678	33,651	33,988	39,406
Professional, Scientific, and Technical Services	53,230	56,712	53,378	53,602	54,351	50,444	359	55,560	60,987
Real Estate and Rental and Leasing	29,221	50,622	47,256	34,267	40,754	41,818	46,626	45,791	42,240
Retail Trade	6,324,220	5,941,837	5,752,530	5,778,493	5,804,981	5,500,150	5,066,117	4,699,782	4,460,787
Utilities	859,768	821,169	755,206	769,225	722,822	693,616	644,298	640,944	652,898
Not Classified by CDTFA	119,638	95,697	80,779	64,818	52,634	49,643	44,417	45,339	38,603
Grand Total	\$ 11,896,806	\$ 11,022,952	\$ 10,521,816	\$ 10,437,268	\$ 10,183,858	\$ 9,664,588	\$ 9,051,023	\$ 8,311,097	\$ 7,904,268

Source: Avenu Insights & Analytics

The data contained in this report is economic and therefore constantly changing as adjustments, fund transfers, late filings and audits are recorded.

The categories listed in previous reports were based on SBOE NAICS codes and have been updated to reflect current updated CDTFA standards.

**City of Palm Springs
Principal Sales Tax Producers
Last Fiscal Year and Nine Years Ago**

167

2017-18		2009-08	
Taxpayer	Business Type	Taxpayer	Business Type
Automobile Club of souther Calif	Miscellaneous Retail	Alamo National Car Rental	Leasing
Bill Llobo	Miscellaneous Other	Albertson's Food Centers	Food Markets
Colburn Henderson Billings	Miscellaneous Retail	Arco Am/Pm Mini Marts	Service Stations
Continental Air Lines	Leasing	Builders Home Center	Bldg.Matls-Retail
Creative Endeavors	Apparel Stores	Chevron Service Stations	Service Stations
Dean Allan Carlson	Miscellaneous Retail	Enterprise Rent-A-Car	Leasing
Eric N Miller Phd	Miscellaneous Other	Financial Svcs Vehicle Trust	Leasing
Fabulous Finds & Fantastic Fakes	Miscellaneous Other	Gottschalks Department Store	Department Stores
George Jhoule	Miscellaneous Retail	Hertz Rent-A-Car	Leasing
Jeanne Oliver Apartment Decor	Miscellaneous Retail	Home Depot	Bldg.Matls-Retail
Kaiser Permanente Pharmacy	Drug Stores	Las Casuelas Terraza Restauran	Restaurants
Kaminsky Productions	Business Services	Le Parker Meridien	Restaurants
Karen Marie Kennedy	Miscellaneous Other	Lowe's Home Centers	Bldg.Matls-Retail
Luke Enterprises	Miscellaneous Other	Pilot Travel Center & Gas	Service Stations
Morgan Collection	Miscellaneous Retail	Ralph's Grocery Company	Food Markets
Nissan Motor Acceptance	Leasing	Rite Aid Drug Stores	Drug Stores
Palm Springs Hilton	Restaurants	Ross Stores	Apparel Stores
Palm Springs Oil Company	Service Stations	Ryder Truck Rentals	Leasing
Palm Springs Tailors	Apparel Stores	Stater Bros Markets	Food Markets
Projekt	Miscellaneous Other	Stein Mart	Apparel Stores
Pryde / Martines	Miscellaneous Other	Viasys Respiratory Care	Health & Government
Robert Mark Trabin	Apparel Stores	Village Pub	Restaurants
Sky Chefs Division #683	Restaurants	Vip Motor Cars	Auto Sales - New
Ssteven Siporin	Miscellaneous Other	Vons Grocery Company	Food Markets
The Clam	Miscellaneous Other	Wal Mart Stores	Department Stores

Source: MuniServices, LLC

CITY OF PALM SPRINGS

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Governmental Activities				Total Governmental Activities
	Pension Obligation Bond (1)	General Obligation Bonds	Tax Allocation Bonds	Loans and Leases	
2009	\$ 20,328,619	\$ 97,667,830	\$ 45,860,000	\$ 3,486,462	\$ 167,342,911
2010	20,349,536	95,654,919	45,045,000	4,327,846	165,377,301
2011	20,312,658	93,372,989	44,080,000	3,854,251	161,619,898
2012	20,221,505	136,394,186	-	3,358,621	159,974,312
2013	20,067,568	132,552,058	-	3,329,912	155,949,538
2014	19,851,587	128,647,806	-	21,156,532	169,655,925
2015	19,572,184	136,551,633	-	20,367,964	176,491,781
2016	20,425,145	131,071,115	-	19,519,529	171,015,789
2017	20,247,941	125,668,219	-	18,597,863	164,514,023
2018	20,011,558	119,760,742	-	21,290,193	161,062,493

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

CITY OF PALM SPRINGS

Ratios of Outstanding Debt by Type

**Last Ten Fiscal Years
(Continued)**

Business-type Activities				Total Business-type Activities	Total Primary Govt	Percentage of Personal Income (1)	Debt Per Capita (1)
Airport Revenue Bonds	Certificates of Participation	Loans	Leases				
\$ 27,965,000	\$ 11,422,169	\$ -	\$ -	\$ 39,387,169	\$ 206,730,080	0.14773	\$ 4,787
27,305,000	10,980,081	-	-	38,285,081	203,662,382	0.14487	4,184
25,995,000	10,522,011	-	-	36,517,011	198,136,909	0.11245	4,054
25,030,000	10,045,814	-	238,248	35,314,062	195,288,374	114.65268	4,233
24,020,000	9,547,944	-	167,372	33,735,316	189,684,854	111.36289	4,112
20,915,000	9,037,194	-	92,556	30,044,750	199,700,675	117.24312	4,329
18,161,227	8,502,035	-	6,807	26,670,069	203,161,850	103.85684	4,259
16,694,038	7,947,127	-	-	24,641,165	195,656,954	100.02032	4,101
12,826,849	7,607,672	-	-	20,434,521	184,948,544	94.54616	3,877
9,929,660	6,918,049	14,354,637	644,329	31,846,675	192,909,168	98.61565	4,044
* Personal Income				1,956,172			
* Total Population				47,706			

CITY OF PALM SPRINGS

**Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years
(In Thousands, except Per Capita)**

Fiscal Year Ended June 30	Outstanding General Bonded Debt			Total	Restricted for Debt Service	Percent of Assessed Value (1)	Per Capita
	Pension Obligation Bond	General Obligation Bonds	Tax Allocation Bonds				
2009	\$ 20,328	\$ 97,667	\$ 45,860	\$ 163,855	\$ 9,808	1.50%	\$ 3,858
2010	20,350	95,655	45,045	161,050	9,625	1.56%	3,380
2011	20,313	93,373	44,080	157,766	9,562	1.61%	3,484
2012	20,222	136,394	-	156,616	12,996	1.62%	3,395
2013	20,068	132,552	-	152,620	11,808	1.58%	3,308
2014	19,852	128,648	-	148,500	11,667	1.41%	3,219
2015	19,572	136,552	-	156,124	4,824	1.52%	3,346
2016	20,425	131,071	-	151,496	4,850	1.44%	3,221
2017	20,248	125,668	-	145,916	4,906	1.30%	3,080
2018	20,012	119,758	-	139,770	1,580	1.16%	2,930

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

CITY OF PALM SPRINGS
Direct and Overlapping Debt
June 30, 2018

2017-18 City Assessed Valuation

\$ 12,222,623,779

	Percentage Applicable (1)	Outstanding Debt 6/30/18	Estimated Share of Overlapping Debt
<u>Overlapping Debt Repaid with Property Taxes:</u>			
Desert Community College District	15.775%	\$ 314,935,000	\$ 49,680,996
Mount San Jacinto Community College District	0.006%	177,765,000	10,666
Banning Unified School District	0.186%	64,194,326	119,401
Palm Springs Unified School District	42.457%	405,516,959	172,170,335
San Geronio Memorial Hospital District	0.065%	110,540,000	71,851
California Statewide Communities Development Authority 1915 Act Bonds	100%	677,034	677,034
City of Palm Springs 1915 Act Bonds	100%	5,475,000	<u>5,475,000</u>
Total overlapping debt repaid with property taxes			<u>\$ 228,205,284</u>
<u>Direct and Overlapping General Fund Debt:</u>			
Riverside County General Fund Obligations	4.636%	812,829,106	\$ 37,682,757
Riverside County Pension Obligations	4.636%	266,365,000	12,348,681
Banning Unified School District Certificates of Participation	0.186%	9,960,000	18,526
City of Palm Springs General Fund Obligations	100%	128,825,440	134,300,440
City of Palm Springs Pension Obligations	100%	20,011,558	<u>20,011,558</u>
Total Gross Direct and Overlapping General Fund Debt			204,361,962
Less: Riverside County Self-Supporting Obligations			<u>155,459</u>
Total Net Direct and Overlapping General Fund Debt			<u>\$ 204,206,503</u>
<u>Overlapping Tax Increment Debt (Successor Agencies)</u>			
Riverside County Tax Allocation Bonds	0.220-100%	211,703,028	<u>\$ 33,034,795</u>
Total Direct Debt			\$ 154,311,998
Total Gross Overlapping Debt			311,290,042
Total Net Overlapping Debt			311,134,583
Gross Combined Total Debt			439,200,727 (2)
Net Combined Total Debt			439,045,268
<u>Ratios to 2017-18 Assessed Valuation:</u>			
Total Overlapping Tax and Assessment Debt	1.87%		
Total Direct Debt (\$127,910,865)	1.05%		
Gross Combined Total Debt	3.59%		
Net Combined Total Debt	3.59%		
<u>Ratios to Redevelopment Successor Agencies Incremental Valuation (\$2,154,482,342)</u>			
Total Overlapping Tax Increment Debt	1.53%		

AB (\$500)

Notes:

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

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

Source: Muni Services LLP

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CITY OF PALM SPRINGS

**Legal Debt Margin Information
Last Ten Fiscal Years
(in Thousands of Dollars)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assessed Valuation	\$ 12,159,350	\$ 10,826,781	\$ 10,176,176	\$ 9,975,774	\$ 9,320,889	\$ 8,901,314	\$ 8,861,010	\$ 9,194,873	\$ 9,731,822	\$ 10,247,857
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	3,039,838	2,706,695	2,544,044	2,493,944	2,330,222	2,225,329	2,215,253	2,298,718	2,432,956	2,561,964
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	455,976	406,004	381,607	374,092	349,533	333,799	332,288	344,808	364,943	384,295
Total net debt applicable to limit: General Obligation Bonds	119,758	125,668	131,071	136,552	128,648	132,552	136,394	93,373	95,655	97,668
Legal debt Margin	<u>\$ 336,218</u>	<u>\$ 280,336</u>	<u>\$ 250,536</u>	<u>\$ 237,540</u>	<u>\$ 220,885</u>	<u>\$ 201,247</u>	<u>\$ 195,894</u>	<u>\$ 251,435</u>	<u>\$ 269,288</u>	<u>\$ 286,627</u>
 Total Debt applicable to the limit as a percentage of debt limit	 26.3%	 31.0%	 34.3%	 36.5%	 36.8%	 39.7%	 41.0%	 27.1%	 26.2%	 25.4%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the state.

Source: City of Palm Springs, Finance Department

CITY OF PALM SPRINGS

**Pledged-Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Tax Allocation Bonds			
	Tax Increment	Debt Service		Coverage
		Principal	Interest	
2009	\$ 14,093,345	\$ 780,000	\$ 2,458,686	4.35
2010	18,376,003	815,000	2,426,481	5.67
2011	16,214,162	965,000	2,389,109	4.83
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-

* Includes \$2,665,000 in special mandatory redemption
 ** Includes \$1,625,000 in special mandatory redemption

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest or depreciation expenses.

CITY OF PALM SPRINGS

**Pledged-Revenue Coverage
Last Ten Fiscal Years
(Continued)**

Airport Revenue Bonds						
Airport Revenue	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage	
			Principal	Interest		
\$ 28,958,090	\$ 14,493,317	\$ 14,464,773	\$ 1,130,000	\$ 1,629,824	5.24	
19,769,064	14,245,793	5,523,271	660,000	1,546,136	2.50	
19,724,924	14,612,198	5,112,726	1,310,000	1,502,770	1.82	
23,023,302	15,418,648	7,604,654	965,000	1,438,003	3.16	
24,109,169	16,143,466	7,965,703	1,010,000	1,387,851	3.32	
35,290,038	16,666,876	18,623,162	3,105,000	1,332,020	4.20	
24,793,762	24,630,467	163,295	2,310,000	1,180,929	0.05	
25,237,494	24,225,209	1,012,285	1,505,000	1,074,954	0.39	
26,526,151	28,080,171	(1,554,020)	3,905,000 *	881,756	-0.32	
29,224,194	27,890,781	1,333,413	2,935,000 **	722,870	0.36	

CITY OF PALM SPRINGS
Demographic and Economic Statistics
Last Ten Calendar Years

Calendar Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
2008	46,992	\$ 1,374,982	\$ 29,260	6.5%
2009	47,653	1,376,376	28,883	10.6%
2010	48,040	1,728,191	35,974	11.5%
2011	45,279	1,669,663	36,875	10.6%
2012	45,712	1,714,109	37,498	7.4%
2013	46,135	1,703,304	36,920	6.4%
2014	46,135	1,612,280	34,947	6.8%
2015	46,654	1,716,050	36,782	5.5%
2016	47,379	1,826,568	38,552	5.0%
2017	47,706	1,956,172	41,005	3.5%

Source: MuniServices, LLC

Source: 2008-2016 Demographics from previously posted CAFR

The California Department of Finance demographics estimates now incorporate 2010 Census counts as the benchmark.

1.) Population Projections are provided by the California Department of Finance Projections.

2.) Income Data is provided by the U.S. Census Bureau, 2010 American Community Survey.

3.) Unemployment Data is provided by the EDD's Bureau of Labor Statistics Department.

4.) Student Enrollment reflects the total number of students enrolled in the Palm Springs Unified School District.

Other school districts within the City are not accounted for in this statistic.

Note: This statistic is a year behind due to the nature of the demographic study

CITY OF PALM SPRINGS
Principal Employers
Last Fiscal Year and Nine Year ago

Business Name	2017-18		2008-09	
	Number of Employees	Percent of Total Employment (%)	Number of Employees	Percent of Total Employment (%)
Palm Springs Unified School District*	2,446	10.73%	1,751	5.52%
Spa Resort Casino (agua caliente casino resort spa)	2,316	10.16%	902	2.84%
Desert Regional Medical Ctr	2,200	9.65%	1,189	3.75%
City of Palm Springs	473	2.07%	421	1.33%
Walmart Supercenter	366	1.61%	305	0.96%
Riviera Palm Springs Resort**	264	1.16%		
Ace Hotel & Swim Club	239	1.05%		
Le Parker Meridien-Palm Spgs	223	0.98%		
Parker Palm Springs Hotel	205	0.90%		
Home Depot	198	0.87%	210	0.66%
Desert Sun			300	0.95%
Ralphs Grocery Company			235	0.74%
Lowe's			185	0.58%
Target Corporation			152	0.48%
Total Top Employers	8,930	39.17%	5,650	17.81%
Total City Employment (1)	22,800			

Source: City of Palm Springs website and MuniServices, LLC

Source: 2008-09 count is from prior CAFR

Results based on direct correspondence with city's local businesses.

*Count is for the entire school district

**Includes full and part time

(1) Total City Labor Force is provided by EDD Labor Force Data and includes all employable adult residents of the City of Palm Springs

CITY OF PALM SPRINGS

**Full - Time Equivalent City Employees By Department
Last Ten Fiscal Years**

<u>Department</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Administration	62.20	44.20	39.20	36.25	36.25	35.75	34.25	34.75	43.25	48.75
Growth Management	32.39	31.39	30.37	24.29	22.60	20.80	20.20	22.20	28.45	34.95
Quality of Life	55.25	53.50	52.50	54.50	54.00	53.25	37.25	38.25	46.00	56.25
Public Safety	210.00	189.00	178.00	173.50	170.50	178.50	172.50	184.50	208.50	214.50
Public Works & Engineering	23.48	23.38	23.38	20.33	20.00	20.00	27.50	27.00	32.00	32.75
Airport	73.00	70.00	69.00	67.00	67.50	66.50	66.50	64.50	63.50	69.50
Golf Course	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50
Motor Vehicle	8.00	8.00	8.00	8.00	7.00	7.00	7.00	7.00	8.00	9.00
Facilities Maintenance	13.90	13.00	13.00	13.00	13.50	13.50	13.50	12.50	14.50	14.50
Risk Management	4.25	4.25	4.25	3.25	3.25	3.25	2.75	3.25	3.25	3.25
Low & Moderate Income Housing	2.78	2.78	2.80	3.38	3.40	3.70	4.30	4.30	4.55	4.55
Wastewater Treatment Plant	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	<u>485.25</u>	<u>439.50</u>	<u>420.50</u>	<u>403.50</u>	<u>398.00</u>	<u>402.25</u>	<u>385.75</u>	<u>398.25</u>	<u>452.00</u>	<u>488.50</u>

Source: City of Palm Springs, Finance Department Adopted Budget

CITY OF PALM SPRINGS

**Operating Indicators by Function
Last Ten Fiscal Years**

	<u>Fiscal Year</u> <u>2018</u>	<u>Fiscal Year</u> <u>2017</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2015</u>	<u>Fiscal Year</u> <u>2014</u>	<u>Fiscal Year</u> <u>2013</u>	<u>Fiscal Year</u> <u>2012</u>	<u>Fiscal Year</u> <u>2011</u>	<u>Fiscal Year</u> <u>2010</u>	<u>Fiscal Year</u> <u>2009</u>
Police:										
Arrests	2,634	2,844	3,566	3,608	4,257	3,090	3,360	3,528	4,564	4,319
Parking Citations	5,138	4,014	5,424	3,826	3,178	2,796	2,585	1,936	2,977	2,896
Fire:										
Number of Emergency Calls	9,880	9,993	10,071	9,753	8,798	8,455	8,263	7,777	7,400	7,054
Inspections	3,364	3,489	3,666	3,389	3,902	3,385	1,425	4,204	3,808	2,907
Public Works:										
Street resurfacing (sq feet)	6,129,638	3,385,000	11,111,269	2,875,700	3,136,862	2,638,360	2,468,300	3,049,441	3,286,000	3,580,270
Parks and Recreation:										
Number of recreation classes	2,919	5,866	5,385	2,642	2,964	3,715	3,229	3,171	1,755	2,001
Number of facility rentals	3,851	3,968	3,908	144	167	160	195	276	955	968
Airport:										
Passengers serviced	2,213,001	2,052,129	1,917,702	1,914,402	1,852,606	1,751,973	1,668,554	1,483,051	1,499,637	1,453,921
Flights	50,751	23,174	55,977	55,823	52,993	51,586	58,792	61,584	68,772	68,805
Sewer:										
New Connections	198	163	165	175	120	114	112	62	102	122
Ave Daily sewage treatment	6.005	5.798	5.845	6.042	6.042	6.033	5.698	5.700	6.491	6.491
Golf Course:										
Golf rounds played	92,202	89,268	89,020	98,866	87,981	95,177	103,653	99,592	80,699	82,966

Source: City of Palm Springs, Finance Department

CITY OF PALM SPRINGS

**Capital Asset Statistics
By Function**

Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Police: Stations	1	1	1	1	1	1	1	1	1	1
Fire: Fire Stations	4	4	4	4	4	4	4	5	5	5
Public Works: Streets (miles)	270	270	270	270	270	270	270	270	270	270
Streetlights	405	405	405	405	405	367	367	367	367	365
Traffic signals	84	84	84	84	84	84	84	84	84	81
Parks and recreation: Parks	10	10	10	10	10	10	10	10	9	8
Community centers	3	3	3	3	3	3	3	3	2	2
Airport: Runway (feet)	14,952	14,952	14,952	14,952	14,952	14,952	14,952	14,952	14,952	14,952
Gates	16	16	16	16	16	16	16	16	16	16
Wastewater: Sanitary sewers (miles)	264	264	264	264	264	264	264	250	260	260
Storm sewers (miles)	52	52	52	52	52	52	52	50	50	50
Maximum daily treatment capacity (thousands of gallons)	10,900	10,900	10,900	10,900	10,900	10,900	10,900	10,900	10,900	10,900
Cogeneration: Cogeneration plants	1	1	1	1	1	2	2	1	1	1
Golf Course: Municipal golf courses	2	2	2	2	2	2	2	2	2	2
Convention Center: Square feet	261,000	261,000	261,000	261,000	261,000	261,000	261,000	261,000	250,000	250,000
Meeting rooms	19	19	19	19	19	19	19	19	13	13

Source: City of Palm Springs, Finance Department

APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ _____
CITY OF PALM SPRINGS
2019 AIRPORT PASSENGER FACILITY CHARGE REVENUE BONDS
(PALM SPRINGS INTERNATIONAL AIRPORT)

This CONTINUING DISCLOSURE CERTIFICATE (this “**Disclosure Certificate**”) is executed and delivered by the CITY OF PALM SPRINGS (the “**City**”) in connection with the execution and delivery of the bonds captioned above (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2019 (the “**Indenture**”), by and between the City and U.S. Bank National Association as trustee.

The City covenants and agrees as follows:

Section 1. 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).

Section 2. 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 2, 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 seven months after the end of the City’s fiscal year (currently February 1 based on the City’s fiscal year end of June 30).

“*Dissemination Agent*” means Harrell & Company Advisors, LLC., or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

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

“*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 Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering 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.

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 February 1, 2020, with the report for the Fiscal Year 2018-19, 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. 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 Listed Event under Section 5(c).

(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) a notice to the MSRB, in an electronic format as prescribed by the MSRB.

(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 before the Annual Report Date, financial information and operating data with respect to the City for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i) An update of the information in Table Nos. 1, 3, 8, 9 and 10 of the Official Statement except the information shall be for the preceding fiscal year;

(ii) The principal amount of the outstanding Bonds and any Parity Debt as of the date of the report;

(iii) The principal amount and name of any Parity Debt issued during the preceding fiscal year;

(iv) The balances as of December 31 in the PFC Revenue Fund, the Debt Service Fund, the Future Capital Account and the Reserve Fund;

(v) Any communication received from the FAA that changes the PFC Limit; and

- (vi) A summary of the Report of Independent Financial Consultant demonstrating the sufficiency of the PFC Balance and the Future Capital Account to pay debt service on the Bonds and any Parity Debt.

(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 Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) 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.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (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.

- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) 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.
- (16) 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) 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 Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) 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)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 5 contain the qualifier “if material” and that subparagraph (a)(6) also contains the qualifier “material” with respect to certain notices, determinations or other events affecting the tax status of the Bonds. 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 it determines the event’s occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) 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.

(e) The term financial obligation means a (1) debt obligation; (2) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (3) guarantee of (e)(1) or (e)(2). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the 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.

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. The

initial Dissemination Agent shall be Harrell & Company Advisors, LLC. 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 Dissemination Agent shall not be obligated to enter into any amendment increasing or affected its duties or obligations and further 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 Report 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 this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report 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.

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

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 Listed 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 Listed 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 Listed 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) The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under the Indenture. 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 holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2019

CITY OF PALM SPRINGS

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
HARRELL & COMPANY ADVISORS, LLC,
as Dissemination Agent

By: _____

Name: _____

Title: _____

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

July __, 2019

City Council
City of Palm Springs
3200 East Tahquitz Canyon Way
Palm Springs, California 92262

OPINION: \$_____ City of Palm Springs
2019 Airport Passenger Facility Charge Revenue Bonds
(Palm Springs International Airport)

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Palm Springs (the "City") of \$_____ aggregate principal amount of bonds of the City designated the "2019 Airport Passenger Facility Charge Revenue Bonds (Palm Springs International Airport)" (the "Bonds"), issued under the provisions of Ordinance No. 1989 adopted by the City Council of the City on May 22, 2019 (the "Ordinance"), and under an Indenture of Trust dated as of July 1, 2019 (the "Indenture"), between the City and U.S. Bank National Association, as trustee. We have examined the Ordinance, an executed copy of the Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Indenture and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. Based upon our examination we are of the opinion, under existing law, that:

1. The City is a charter city and municipal corporation organized and existing under the Constitution and laws of the State of California, with power to adopt the Ordinance, to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Bonds have been duly authorized and issued by the City and are legal, valid and binding obligations of the City, payable solely from the sources provided therefor in the Indenture.

3. The Indenture has been duly approved by the City and constitutes a legal, valid and binding obligation of the City enforceable against the City in accordance with its terms.

4. Pursuant to the Ordinance, the Indenture establishes a valid lien on and pledge of the PFC Revenues (as such term is defined in the Indenture) which are derived from the operation of the Palm Springs International Airport for the security of the Bonds and any obligations issued on a parity therewith.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes, except during any period while a Bond is held by a "substantial user" of the facilities financed by the Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Tax Code"). Interest on the Bonds is an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentences are subject to the condition that the City comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Indenture to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or 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. 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.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (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 issue of the Securities, each 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 a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange

Commission. More information about DTC can be found at www.dtcc.com. *The information contained on such Internet site 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 effect 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 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 Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds and distributions 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 Issuer or Agent, 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, Agent, or Issuer, 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 Issuer or Agent, 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 Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry 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 Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.