

See the caption “CONCLUDING INFORMATION—Ratings”

In the opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 2019A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2019B Bonds is not excluded from gross income for federal income taxes. In the further opinion of Bond Counsel, interest (and original issue discount) on the 2019 Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS.”

\$3,805,000

**SUCCESSOR AGENCY TO THE
 LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
 Lemon Grove Redevelopment Project Area
 Tax Allocation Refunding Bonds, Issue of 2019A (Tax-Exempt)**

Dated: Delivery Date

The Successor Agency to the Lemon Grove Community Development Agency, Lemon Grove Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 2019A (Tax-Exempt) (the “2019A Bonds”) and the Lemon Grove Community Development Agency, Lemon Grove Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 2019B (Federally Taxable) (the “2019B Bonds,” and together with the 2019A Bonds, the “2019 Bonds”) will be delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers (“Beneficial Owners”) in integral multiples of \$5,000 under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the 2019 Bonds. The principal of and interest (which interest is due February 1 and August 1 of each year, commencing February 1, 2020) on the 2019 Bonds will be payable by U.S. Bank National Association, as trustee (the “Trustee”), to DTC for subsequent disbursement to DTC Participants, so long as DTC or its nominee remains the registered owner of the 2019 Bonds. See the caption “THE 2019 BONDS—Book-Entry System.”

\$11,695,000

**SUCCESSOR AGENCY TO THE
 LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
 Lemon Grove Redevelopment Project Area
 Tax Allocation Refunding Bonds, Issue of 2019B (Federally Taxable)**

Due: August 1, as shown on the inside front cover page

The 2019 Bonds are being issued pursuant to the Indenture of Trust, dated as of December 1, 2019 (the “Indenture”), by and between the Trustee and the Successor Agency to the Lemon Grove Community Development Agency (the “Agency”): (i) to currently refund certain obligations of the former Lemon Grove Community Development Agency (the “Former Agency”), as described under the caption “REFUNDING PLAN”; (ii) to purchase a municipal bond insurance policy (the “Policy”) with respect to the 2019 Bonds; (iii) to purchase a municipal debt service reserve insurance policy for the 2019 Bonds (the “2019 Reserve Policy”); and (iv) to pay certain costs of issuance of the 2019 Bonds.

The 2019A Bonds are not subject to redemption prior to maturity. The 2019B Bonds are subject to redemption prior to maturity. See the caption “THE 2019 BONDS—Redemption.”

The 2019 Bonds are payable from and secured by the Pledged Tax Revenues deposited in the Redevelopment Property Tax Trust Fund and payable from amounts on deposit therein after payments of certain San Diego County administrative costs and payments to certain taxing agencies, as more fully described under the captions “SECURITY FOR THE 2019 BONDS—Pass-Through Agreements,” “—Statutory Pass-Through Agreements,” “—Section 33676 Election” and “PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—Property Tax Administrative Costs.” The 2019 Bonds are issued on a parity with the Agency’s \$5,740,000 original principal amount Lemon Grove Redevelopment Project Area Tax Allocation Refunding Bonds, Issue of 2014. Taxes levied on the property within the Project Area (as defined herein and in the Indenture) on that portion of the taxable valuation over and above the taxable valuation of the base year property tax roll, to the extent that such taxes constitute Pledged Tax Revenues, will be deposited in the Redevelopment Obligation Retirement Fund and administered by the Agency and the Trustee in accordance with the Indenture.

The scheduled payment of principal of and interest on the 2019 Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the 2019 Bonds by Build America Mutual Assurance Company (the “2019 Insurer” or “BAM”). See the captions “INTRODUCTORY STATEMENT—Bond Insurance” and “BOND INSURANCE” and Appendix I—“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”



This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the 2019 Bonds. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision. Attention is hereby directed to certain risk factors more fully described herein.

The 2019 Bonds are not a debt of the City of Lemon Grove, the State of California, or any of its political subdivisions (except the Agency), and neither said City or State, nor any of its political subdivisions (except the Agency), is liable hereon, nor in any event shall the 2019 Bonds be payable out of any funds or properties other than those of the Agency. The 2019 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. The principal of and interest on the 2019 Bonds are payable solely from the Pledged Tax Revenues (as defined herein and in the Indenture) allocated to the Agency from the Project Area and other funds as set forth in the Indenture.

The 2019 Bonds are offered, when, as and if issued, subject to the approval of Stradling Yocca Carlson & Rauth, A Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the Agency by the City Attorney of the City of Lemon Grove, as counsel to the Agency, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as disclosure counsel to the Agency, for the Underwriter by its counsel, Nixon Peabody LLP, Los Angeles, California, and for the Trustee by its counsel. It is anticipated that the 2019 Bonds will be available for delivery through the facilities of DTC on or about December 19, 2019.

RAYMOND JAMES

MATURITY SCHEDULE

Base CUSIP[†]525641

\$3,805,000
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Lemon Grove Redevelopment Project Area
Tax Allocation Refunding Bonds, Issue of 2019A (Tax-Exempt)

<i>Maturity Date (August 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†] Suffix</i>
2020	\$ 410,000	4.000%	1.050%	101.807	AW6
2021	370,000	4.000	1.160	104.534	AX4
2022	385,000	4.000	1.270	107.003	AY2
2023	395,000	4.000	1.330	109.396	AZ9
2024	420,000	4.000	1.410	111.535	BA3
2025	435,000	4.000	1.520	113.301	BB1
2026	445,000	4.000	1.610	114.942	BC9
2027	465,000	4.000	1.680	116.520	BD7
2028	480,000	4.000	1.770	117.747	BE5

\$11,695,000
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Lemon Grove Redevelopment Project Area
Tax Allocation Refunding Bonds, Issue of 2019B (Federally Taxable)

<i>Maturity Date (August 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP[†] Suffix</i>
2020	\$ 415,000	2.220%	2.220%	100.000	BF2
2021	270,000	2.270	2.270	100.000	BG0
2022	280,000	2.380	2.380	100.000	BH8
2023	280,000	2.499	2.499	100.000	BJ4
2024	305,000	2.599	2.599	100.000	BK1
2025	310,000	2.793	2.793	100.000	BL9
2026	320,000	2.923	2.923	100.000	BM7
2027	330,000	3.031	3.031	100.000	BN5
2028	335,000	3.131	3.131	100.000	BP0
2029	350,000	3.231	3.231	100.000	BQ8

\$3,715,000 3.631% Term Bonds Due August 1, 2034, Yield: 3.631%, Price: 100.000, CUSIP[†] BR6

\$4,785,000 3.853% Term Bonds Due August 1, 2037, Yield: 3.853%, Price: 100.000, CUSIP[†] BS4

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright(c) 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. Neither the Agency nor the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

**SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Lemon Grove, California**

SUCCESSOR AGENCY BOARD OF DIRECTORS

Racquel Vasquez, *Chair*
David Arambula, *Vice Chair*
Jerry Jones
Jennifer Mendoza
Yadira Altamirano *

AGENCY/CITY STAFF

Lydia Romero, *Executive Director*
Shelley Chapel, *Secretary*
Molly Brennan, *Treasurer*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

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

City Attorney

Lounsbury Ferguson Altona & Peak
Escondido, California

Trustee

U.S. Bank National Association
Los Angeles, California

Municipal Advisor and Fiscal Consultant

Urban Futures, Inc.
Tustin, California

Verification Agent

Causey, Demgen & Moore, P.C.
Denver, Colorado

* Appointed on December 3, 2019 to fill a vacant seat on the City Council effective December 17, 2019.

GENERAL INFORMATION ABOUT 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 Agency or the Underwriter to give any information or to make any representations with respect to the 2019 Bonds other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been given or authorized by the Agency or the Underwriter.

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 2019 Bonds described in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement does not constitute a contract between any Bond owner and the Agency or the Underwriter.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. 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.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure made by the Agency, 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.

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 2019 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Agency or the other parties described in this Official Statement, since the date of this Official Statement.

Document Summaries. All summaries of the Indenture or other documents contained in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all such provisions. All references in this Official Statement to the Indenture and such other documents are qualified in their entirety by reference to such documents, which are on file with the Agency.

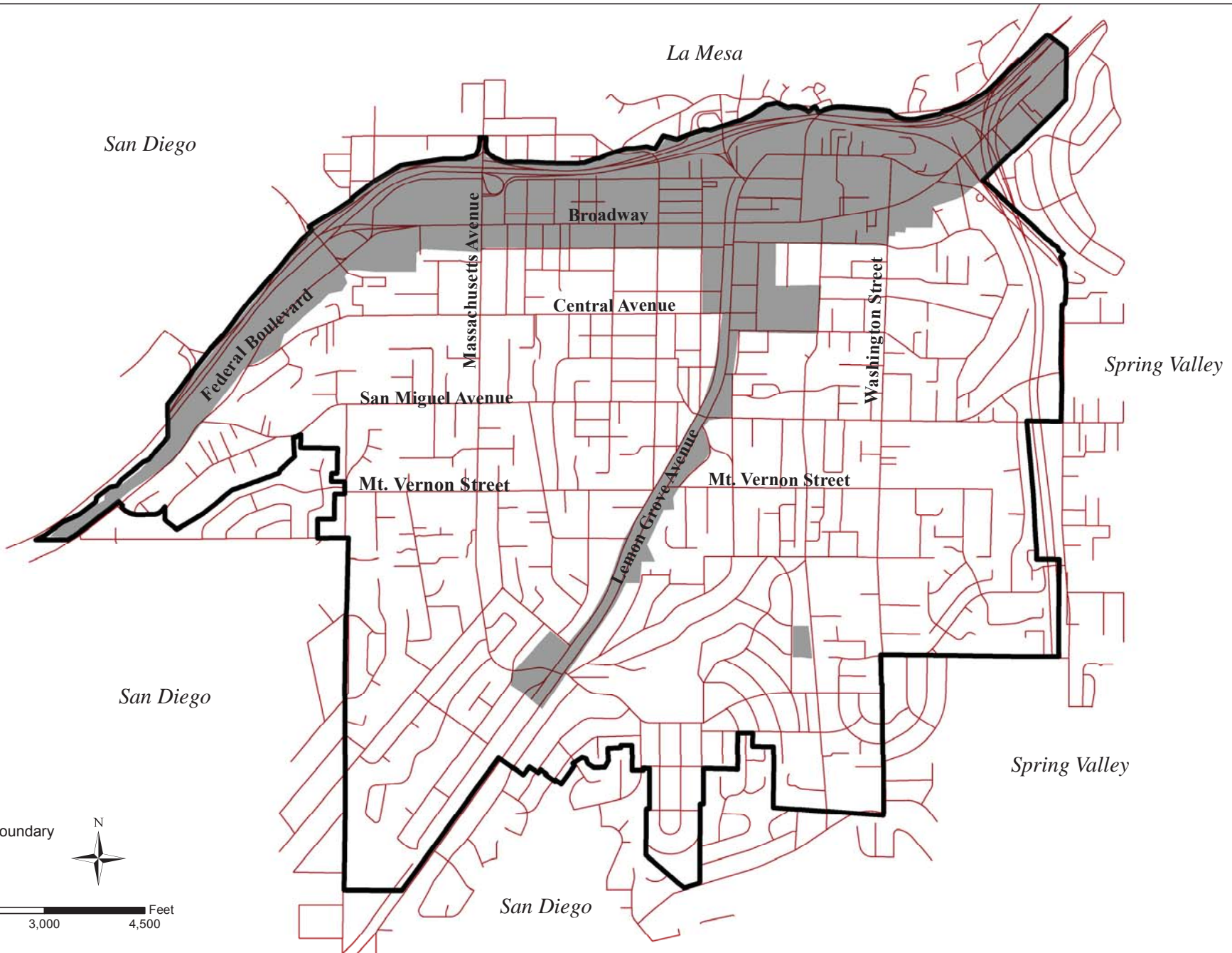
No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

No Registration with the SEC. The issuance and sale of the 2019 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

Public Offering Prices. The Underwriter may offer and sell the 2019 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and the Underwriter may change such public offering prices from time to time.

Bond Insurer. Build America Mutual Assurance Company (“BAM”) makes no representation regarding the 2019 Bonds or the advisability of investing in the 2019 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE” and “Appendix I—Specimen Municipal Bond Insurance Policy”.

Website. The City of Lemon Grove maintains an Internet website which includes information about the Agency. However, the information maintained on such website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the 2019 Bonds.



San Diego

La Mesa

Broadway

Central Avenue

Federal Boulevard

Massachusetts Avenue

San Miguel Avenue

Washington Street

Spring Valley

Mt. Vernon Street

Mt. Vernon Street

Lemon Grove Avenue

San Diego

Spring Valley

San Diego

Legend

- Project Area 1A
- Lemon Grove Boundary
- Roads

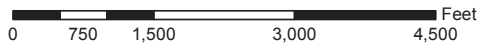


TABLE OF CONTENTS

<p>INTRODUCTORY STATEMENT..... 1</p> <p style="padding-left: 20px;">Authority and Purpose..... 1</p> <p style="padding-left: 20px;">The City and the Agency..... 2</p> <p style="padding-left: 20px;">The Redevelopment Plan..... 2</p> <p style="padding-left: 20px;">Tax Allocation Financing..... 2</p> <p style="padding-left: 20px;">Security for the 2019 Bonds..... 3</p> <p style="padding-left: 20px;">Prior Payment Obligations..... 4</p> <p style="padding-left: 20px;">Issuance of Parity Debt..... 4</p> <p style="padding-left: 20px;">Bond Insurance..... 4</p> <p style="padding-left: 20px;">Reserve Account..... 5</p> <p style="padding-left: 20px;">Changes Since the Preliminary Official Statement..... 5</p> <p style="padding-left: 20px;">Further Information..... 5</p> <p>REFUNDING PLAN..... 5</p> <p style="padding-left: 20px;">2010 Bonds..... 5</p> <p style="padding-left: 20px;">2007 Bonds..... 6</p> <p style="padding-left: 20px;">Estimated Sources and Uses of Funds..... 6</p> <p>THE 2019 BONDS..... 7</p> <p style="padding-left: 20px;">Authority for Issuance..... 7</p> <p style="padding-left: 20px;">Description of the 2019 Bonds..... 7</p> <p style="padding-left: 20px;">Book-Entry System..... 7</p> <p style="padding-left: 20px;">Redemption..... 8</p> <p style="padding-left: 20px;">Annual Debt Service..... 10</p> <p>SECURITY FOR THE 2019 BONDS..... 11</p> <p style="padding-left: 20px;">General..... 11</p> <p style="padding-left: 20px;">Pledged Tax Revenues..... 12</p> <p style="padding-left: 20px;">Redevelopment Obligation Retirement Fund; Deposit of Pledged Tax Revenues..... 13</p> <p style="padding-left: 20px;">Transfer of Amounts by Trustee..... 13</p> <p style="padding-left: 20px;">Tax Increment Financing..... 15</p> <p style="padding-left: 20px;">Recognized Obligation Payment Schedule..... 17</p> <p style="padding-left: 20px;">Last and Final Recognized Obligation Payment Schedule..... 19</p> <p style="padding-left: 20px;">Pass-Through Agreements..... 21</p> <p style="padding-left: 20px;">Statutory Pass-Through Amounts..... 21</p> <p style="padding-left: 20px;">Section 33676 Election..... 22</p> <p style="padding-left: 20px;">Issuance of Additional Indebtedness..... 22</p> <p>BOND INSURANCE..... 23</p> <p style="padding-left: 20px;">Bond Insurance Policy..... 23</p> <p style="padding-left: 20px;">Build America Mutual Assurance Company..... 23</p> <p>PROPERTY TAXATION IN CALIFORNIA..... 25</p> <p style="padding-left: 20px;">Property Tax Collection Procedures..... 25</p> <p style="padding-left: 20px;">Unitary Property..... 27</p> <p style="padding-left: 20px;">Article XIII A of the State Constitution..... 27</p> <p style="padding-left: 20px;">Appropriations Limitation – Article XIII B..... 29</p> <p style="padding-left: 20px;">Articles XIII C and XIII D of the State Constitution..... 29</p> <p style="padding-left: 20px;">Proposition 87..... 29</p> <p style="padding-left: 20px;">Redevelopment Plan Limits..... 29</p> <p style="padding-left: 20px;">Appeals of Assessed Values..... 30</p> <p style="padding-left: 20px;">Proposition 8..... 30</p> <p style="padding-left: 20px;">Propositions 218 and 26..... 31</p> <p style="padding-left: 20px;">Future Initiatives..... 31</p> <p>THE SUCCESSOR AGENCY TO THE LEMON GROVE COMMUNITY DEVELOPMENT AGENCY..... 31</p> <p style="padding-left: 20px;">Agency Powers..... 31</p> <p style="padding-left: 20px;">Status of Compliance with Dissolution Act..... 32</p> <p>THE PROJECT AREA..... 32</p> <p style="padding-left: 20px;">General..... 33</p> <p style="padding-left: 20px;">Plan Limits..... 33</p> <p style="padding-left: 20px;">Schedule of Historical Taxable Values and Incremental Revenues..... 34</p>	<p style="padding-left: 20px;">Largest Taxpayers..... 35</p> <p style="padding-left: 20px;">Land Use..... 36</p> <p style="padding-left: 20px;">Assessment Appeals..... 36</p> <p style="padding-left: 20px;">New Development..... 37</p> <p>PLEGGED TAX REVENUES..... 37</p> <p style="padding-left: 20px;">Projected Pledged Tax Revenues..... 37</p> <p style="padding-left: 20px;">Debt Service Coverage..... 41</p> <p style="padding-left: 20px;">Projected RPTTF Distributions..... 43</p> <p>RISK FACTORS..... 43</p> <p style="padding-left: 20px;">Reduction in Taxable Value..... 43</p> <p style="padding-left: 20px;">Concentration of Ownership..... 44</p> <p style="padding-left: 20px;">Risks to Real Estate Market..... 44</p> <p style="padding-left: 20px;">Reduction in Inflation Rate..... 45</p> <p style="padding-left: 20px;">Effect of Redevelopment Plan Limits..... 45</p> <p style="padding-left: 20px;">Levy and Collection of Taxes..... 45</p> <p style="padding-left: 20px;">State Budget Issues..... 45</p> <p style="padding-left: 20px;">Recognized Obligation Payment Schedule..... 47</p> <p style="padding-left: 20px;">Last and Final Recognized Obligation Payment Schedule..... 49</p> <p style="padding-left: 20px;">Parity and Subordinate Debt..... 50</p> <p style="padding-left: 20px;">Challenges to Dissolution Act..... 50</p> <p style="padding-left: 20px;">Bankruptcy and Foreclosure..... 51</p> <p style="padding-left: 20px;">Estimated Revenues..... 51</p> <p style="padding-left: 20px;">Hazardous Substances..... 52</p> <p style="padding-left: 20px;">Natural Disasters..... 52</p> <p style="padding-left: 20px;">Changes in the Law..... 53</p> <p style="padding-left: 20px;">Investment Risk..... 53</p> <p style="padding-left: 20px;">Secondary Market..... 53</p> <p style="padding-left: 20px;">No Validation Proceeding Undertaken..... 53</p> <p style="padding-left: 20px;">IRS Audit of Tax-Exempt Bond Issues..... 54</p> <p style="padding-left: 20px;">Loss of Tax Exemption..... 54</p> <p style="padding-left: 20px;">Bonds Are Limited Obligations..... 54</p> <p style="padding-left: 20px;">Bond Insurance..... 55</p> <p style="padding-left: 20px;">Limitations on Remedies..... 55</p> <p>TAX MATTERS..... 56</p> <p style="padding-left: 20px;">2019A Bonds..... 56</p> <p style="padding-left: 20px;">2019B Bonds..... 57</p> <p>CONCLUDING INFORMATION..... 58</p> <p style="padding-left: 20px;">Underwriting..... 58</p> <p style="padding-left: 20px;">Municipal Advisor..... 58</p> <p style="padding-left: 20px;">Verification of Mathematical Computations..... 59</p> <p style="padding-left: 20px;">Legal Opinion..... 59</p> <p style="padding-left: 20px;">Litigation..... 59</p> <p style="padding-left: 20px;">Ratings..... 59</p> <p style="padding-left: 20px;">Continuing Disclosure..... 60</p> <p style="padding-left: 20px;">Miscellaneous..... 60</p> <p>APPENDIX A FISCAL CONSULTANT’S REPORT..... A-1</p> <p>APPENDIX B SUMMARY OF THE INDENTURE..... B-1</p> <p>APPENDIX C FORM OF BOND COUNSEL OPINION.. C-1</p> <p>APPENDIX D BOOK-ENTRY ONLY SYSTEM..... D-1</p> <p>APPENDIX E COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2019..... E-1</p> <p>APPENDIX F STATE DEPARTMENT OF FINANCE LETTER..... F-1</p> <p>APPENDIX G FORM OF CONTINUING DISCLOSURE CERTIFICATE..... G-1</p> <p>APPENDIX H SUPPLEMENTAL INFORMATION— THE CITY OF LEMON GROVE..... H-1</p> <p>APPENDIX I SPECIMEN MUNICIPAL BOND INSURANCE POLICY..... I-1</p>
---	--

\$3,805,000
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY
DEVELOPMENT AGENCY
Lemon Grove Redevelopment Project Area
Tax Allocation Refunding Bonds, Issue of 2019A (Tax-
Exempt)

\$11,695,000
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY
DEVELOPMENT AGENCY
Lemon Grove Redevelopment Project Area
Tax Allocation Refunding Bonds, Issue of 2019B (Federally
Taxable)

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, is provided to furnish information in connection with the sale by the Successor Agency to the Lemon Grove Community Development Agency (the “Agency”) of its Lemon Grove Redevelopment Project Area Tax Allocation Refunding Bonds, Issue of 2019A (Tax-Exempt) (the “2019A Bonds”) and its Lemon Grove Redevelopment Project Area Tax Allocation Refunding Bonds, Issue of 2019B (Federally Taxable)(the “2019B Bonds,” and together with the 2019A Bonds, the “2019 Bonds”).

Authority and Purpose

The 2019 Bonds are being issued pursuant to the Constitution and laws of the State of California (the “State”), including Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the “Bond Law”), the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the Health and Safety Code (the “Redevelopment Law”), the Dissolution Act (as defined below) and an Indenture of Trust, dated as of December 1, 2019 (the “Indenture”), by and between the Agency and U.S. Bank National Association, as trustee (the “Trustee”). See the caption “THE 2019 BONDS—Authority for Issuance.” The 2019 Bonds are issued on a parity with the Agency’s \$5,740,000 original principal amount Lemon Grove Redevelopment Project Area Tax Allocation Refunding Bonds, Issue of 2014 (the “2014 Bonds” and together with any other Additional Parity Bonds, the “Parity Bonds”), which 2014 Bonds were issued pursuant to an Indenture of Trust dated as of July 1, 2014, by and between the Agency and U.S. Bank National Association, as trustee (the “2014 Indenture”).

The 2019 Bonds are being issued: (i) to currently refund the Former Agency’s outstanding Lemon Grove Redevelopment Project Area 2007 Tax Allocation Bonds (the “2007 Bonds”), (ii) to currently refund the Former Agency’s outstanding Lemon Grove Redevelopment Project Area 2010 Tax Allocation Refunding Bonds (the “2010 Bonds,” and together with the 2007 Bonds, the “Refunded Bonds”), as described under the caption “REFUNDING PLAN,” (iii) to purchase a municipal bond insurance policy (the “Policy”) with respect to the 2019 Bonds, (iv) to purchase a municipal bond debt service reserve insurance policy for the 2019 Bonds (the “2019 Reserve Policy”), and (v) to pay certain costs of issuance of the 2019 Bonds. See the caption “REFUNDING PLAN—Estimated Sources and Uses of Funds.”

The 2019 Bonds are secured by the Pledged Tax Revenues deposited in the Redevelopment Property Tax Trust Fund (referred to at times herein as the “RPTTF”) and payable from amounts on deposit therein after payments of certain San Diego County (the “County”) administrative costs and payments to certain taxing agencies, as more fully described under the captions “SECURITY FOR THE 2019 BONDS—Pass-Through Agreements,” “—Statutory Pass-Through Amounts,” “—Section 33676 Election” and “PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Property Tax Administrative Costs.*” The Agency may issue additional Parity Bonds, subject to compliance with certain conditions set forth in the Indenture. See “SECURITY FOR THE 2019 BONDS—Issuance of Additional Indebtedness—*Parity Debt.*”

The City and the Agency

The City of Lemon Grove (the “City”) is located nine miles east of the City of San Diego in the County. The City was incorporated in 1977, and operates as a general law city. The City has a Council-Manager form of government. Five council members, including a mayor, are elected at large. For certain information with respect to the City, see APPENDIX H—“SUPPLEMENTAL INFORMATION—THE CITY OF LEMON GROVE.”

The Former Agency was activated by Ordinance of the City Council adopted on May 16, 1986, pursuant to the Redevelopment Law. The five members of the City Council served as the governing body of the Former Agency and exercised all the rights, powers, duties and privileges of the Former Agency.

On June 29, 2011, Assembly Bill No. 26 (“AB X1 26”) was enacted as Chapter 5, Statutes of 2011, together with a companion bill, Assembly Bill No. 27 (“AB X1 27”). A lawsuit entitled *California Redevelopment Association, et al. v. Matosantos, et al.*, was brought in the State Supreme Court challenging the constitutionality of AB X1 26 and AB X1 27. In a published decision (53 Cal. 4th 231 (Dec. 29, 2011)), the State Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the State Supreme Court, as of February 1, 2012, all redevelopment agencies in the State, including the Former Agency, were dissolved, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

The primary provisions of AB X1 26 relating to the dissolution and winding down of former redevelopment agency affairs are Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health & Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“AB 1484”), enacted as Chapter 26, Statutes of 2012, and as further amended on September 22, 2015 by Senate Bill 107 (“SB 107”), enacted as Chapter 325, Statutes of 2015 (collectively, as amended from time to time, the “Dissolution Act”).

Pursuant to Section 34173 of the Dissolution Act, the City Council of the City serves as the successor agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, which was added by AB 1484, expressly affirms that the Agency is a separate public entity from the City, that the two entities shall not merge and that the liabilities of the Former Agency will not be transferred to the City, nor will the assets of the Former Agency become assets of the City.

The Redevelopment Plan

The 2019 Bonds are principally payable from Pledged Tax Revenues attributable to the Project Area (as defined under the caption “THE PROJECT AREA”). The Redevelopment Plan (defined below under the caption “THE PROJECT AREA—General”) was originally adopted by Ordinance No. 132 on November 17, 1986, and has subsequently been amended by ordinance from time to time. The Project Area encompasses approximately 618 acres and is located between the northerly portion of the City’s eastern and western boundaries and, with its southerly extension along most of the length of Lemon Grove Avenue and a small area on Skyline Drive, includes almost all of the City’s land which is zoned for commercial and industrial use. Major roadways within the Project Area are Federal Boulevard, Broadway, Lemon Grove Avenue, Lemon Grove Way and Grove Street. See the caption “THE PROJECT AREA” for detailed information regarding the Redevelopment Plan, certain amendments to the Redevelopment Plan, and the Project Area.

Tax Allocation Financing

Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the

effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming that the taxable valuation never drops below the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding bonds, including the 2019 Bonds, to be secured by a pledge of moneys deposited from time to time in a Redevelopment Property Tax Trust Fund held by a county auditor-controller with respect to a successor agency, which are equivalent to the tax increment revenues that were formerly allocated under the Redevelopment Law to the redevelopment agency and formerly authorized under the Redevelopment Law to be used for the financing of redevelopment projects.

Under the Indenture, the term “Pledged Tax Revenues” is defined under the Indenture to mean the moneys deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to subdivision (c) of section 34172 of the Dissolution Act, as provided in paragraph (2) of subdivision (a) of section 34183 of the Dissolution Act, less all Statutory Pass-Through Amounts, all 33676 Amounts and all amounts required to be paid to other taxing entities pursuant to the Pass-Through Agreements to the extent such amounts are not subordinate to the 2019 Bonds. If, and to the extent, that the provisions of section 34172 or paragraph (2) of subdivision (a) of section 34183 of the Dissolution Act are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness of the Agency pursuant to section 33670 of the Law or such other section as may be in effect at the time providing for the allocation of tax increment revenues to the Agency in accordance with Article XVI, Section 16 of the California Constitution.

Pursuant to the Indenture, the Agency will deposit moneys derived from the Project Area constituting Pledged Tax Revenues promptly upon receipt thereof into the Redevelopment Obligation Retirement Fund established pursuant to Section 34170.5(a) of the Dissolution Act. Moneys held in the Redevelopment Obligation Retirement Fund will be transferred to the Trustee at the times specified in the Indenture to make payments of principal of and interest on the 2019 Bonds, all as described under the caption “SECURITY FOR THE 2019 BONDS.”

Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See the caption “RISK FACTORS.”

Security for the 2019 Bonds

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit such amount in the Redevelopment Property Tax Trust Fund. Section 34177.5(g) of the Dissolution Act provides that any bonds authorized to be issued by the Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if such bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provisions of the Redevelopment Law that existed prior to that date, will be included in the Agency’s Recognized Obligation Payment Schedule, and will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to, and in accordance with, the Dissolution Act. See Appendix B and the caption “SECURITY FOR THE 2019 BONDS—Recognized Obligation Payment Schedule.”

The Dissolution Act further provides that property tax revenues pledged to any bonds authorized under the Dissolution Act, such as the 2019 Bonds, are taxes allocated to the Agency pursuant to the

provisions of the Redevelopment Law and the State Constitution which provided for the allocation of tax increment revenues under the Redevelopment Law, as described in the foregoing paragraph.

In accordance with the Dissolution Act, the 2019 Bonds and Parity Bonds are payable from and secured by, and Pledged Tax Revenues include, moneys deposited, from time to time, in the Redevelopment Property Tax Trust Fund.

The 2019 Bonds and all Parity Bonds shall be equally secured by a pledge and lien on all of the Pledged Tax Revenues and on all of the moneys in the Redevelopment Obligation Retirement Fund and by a first and exclusive pledge and lien upon all of the moneys in the Debt Service Fund (including the Interest Account, the Principal Account, the Reserve Account and the Redemption Account therein) without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Pledged Tax Revenues and such moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the 2019 Bonds.

Pursuant to the Dissolution Act, former tax increment revenues generated in the Project Area are no longer required to be deposited into the Low and Moderate Income Housing Fund. Accordingly, and because, following the issuance of the 2019 Bonds and redemption of the Refunded Bonds, the Agency will have no obligations that are payable from the Low and Moderate Income Housing Fund, such revenues are now available and pledged to the repayment of the 2019 Bonds and Parity Bonds. See “SECURITY FOR THE 2019 BONDS—Tax Increment Financing—*Elimination of Housing Set-Aside*.”

The Agency has no power to levy property taxes and must look specifically to the allocation of taxes as described above. See the captions “SECURITY FOR THE 2019 BONDS” and “RISK FACTORS.”

Prior Payment Obligations

The use of Pledged Tax Revenues from the Project Area to pay debt service on the 2019 Bonds is subject to the prior payment of permitted administrative costs of the County Auditor-Controller, payments to certain taxing entities under Pass-Through Agreements, the payment of Statutory Pass-Through Amounts to certain taxing entities and the payment of 33676 Amounts to certain taxing entities. See the captions “PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Property Tax Administrative Costs*” for a description of the County’s administrative costs, “SECURITY FOR THE 2019 BONDS—Pass-Through Agreements” for a description of the Pass-Through Agreements, “SECURITY FOR THE 2019 BONDS—Statutory Pass-Through Amounts” for a description of the Statutory Pass-Through Amounts and “SECURITY FOR THE 2019 BONDS—Section 33676 Election” for a description of the 33676 Amounts.

Issuance of Parity Debt

The Indenture permits the Agency to issue additional Parity Bonds, subject to compliance with certain requirements set forth in the Indenture. See “SECURITY FOR THE 2019 BONDS—Issuance of Additional Indebtedness.” However, under the Dissolution Act, such additional Parity Bonds may only be issued for the purposes of refunding the 2019 Bonds, the 2014 Bonds and any additional Parity Bonds.

Bond Insurance

The scheduled payment of principal of and interest on the 2019 Bonds when due will be guaranteed under the Policy to be issued concurrently with the delivery of the 2019 Bonds by Build America Mutual Assurance Company (“the 2019 Insurer” or “BAM”). See the caption “BOND INSURANCE.”

Reserve Account

A Reserve Account for the 2019 Bonds has been established pursuant to the Indenture in an amount at least equal to the share of the Reserve Requirement allocable to the 2019 Bonds. Amounts in the Reserve Account are only available to pay debt service on the 2019 Bonds. Amounts in the reserve account created with respect to 2014 Bonds or any additional Parity Bonds are not available to pay debt service on the 2019 Bonds. See “SECURITY FOR THE 2019 BONDS—Redevelopment Obligation Retirement Fund; Deposit of Pledged Tax Revenues.”

Under the Indenture, “Reserve Requirement” is defined to mean, as of any date of computation, an amount equal to the lesser of (i) Maximum Annual Debt Service on the 2019 Bonds and Parity Bonds, (ii) 10% of the net proceeds of the 2019 Bonds and Parity Bonds, or (iii) 125% of the Annual Debt Service on all 2019 Bonds and Parity Bonds Outstanding.

The portion of the Reserve Requirement attributable to the 2019 Bonds is initially being satisfied by the deposit of the 2019 Reserve Policy into the Reserve Account. See “BOND INSURANCE.”

Changes Since the Preliminary Official Statement

Since the date of the Preliminary Official Statement, changes have been made to this Official Statement to include the audited financial statements of the City for the period ending June 30, 2019.

Further Information

Brief descriptions of the 2019 Bonds, the Indenture, the Agency, the Former Agency and the City are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bond Law, the Redevelopment Law, the Dissolution Act, the Constitution and the laws of the State as well as the proceedings of the Former Agency, the Agency and the City are qualified in their entirety by reference to such documents. References herein to the 2019 Bonds are qualified in their entirety by the form thereof included in the Indenture and the information with respect thereto included herein, copies of which are all available for inspection at the offices of the Agency. Copies of the forms of all documents are available from the City Clerk’s office, City of Lemon Grove, 3232 Main Street, Lemon Grove, California 91945.

Capitalized terms used herein and not defined have the meanings set forth in Appendix B.

REFUNDING PLAN

2010 Bonds

General. The Agency is issuing the 2019A Bonds to provide moneys (together with other available funds of the Agency) necessary to refund the 2010 Bonds in whole on a current basis. On the date of issuance of the 2019A Bonds, a portion of the proceeds of the 2019A Bonds and other available funds of the Agency will be transferred, pursuant to an escrow agreement (the “2010 Bonds Escrow Agreement”) to U.S. Bank National Association (the “Escrow Bank”). Such moneys shall be applied by the Escrow Bank to redeem the 2010 Bonds on January 21, 2020.

The amounts held by the Escrow Bank under the 2010 Bonds Escrow Agreement are pledged solely to the redemption of the 2010 Bonds. The moneys deposited with the Escrow Bank under the 2010 Bonds Escrow Agreement will not be available for the payments of principal of and interest on the 2019 Bonds.

Sufficiency of the deposits to the escrow fund to be held by the Escrow Bank under the 2010 Bonds Escrow Agreement for the redemption of the 2010 Bonds will be verified by Causey, Demgen & Moore, P.C.,

Denver, Colorado (the “Verification Agent”). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2010 Bonds Escrow Agreement, the 2010 Bonds will be defeased pursuant to the provisions of the indenture under which the 2010 Bonds were issued as of the date of issuance of the 2019A Bonds.

Verification of Mathematical Computations. Upon issuance of the 2019A Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to the adequacy of the cash to be deposited in the respective escrow funds to pay the redemption price of the 2010 Bonds.

2007 Bonds

General. The Agency is issuing the 2019B Bonds to provide moneys (together with other available funds of the Agency) necessary to refund the 2007 Bonds in whole on a current basis. On the date of issuance of the 2019B Bonds, a portion of the proceeds of the 2019B Bonds and other available funds of the Agency will be transferred, pursuant to separate an escrow agreement (the “2007 Bonds Escrow Agreement”) to the Escrow Bank. Such moneys shall be applied by the Escrow Bank to redeem the 2007 Bonds on January 21, 2020.

The amounts held by the Escrow Bank under the 2007 Bonds Escrow Agreement are pledged solely to the redemption of the 2007 Bonds. The moneys deposited with the Escrow Bank under the 2007 Bonds Escrow Agreement will not be available for the payments of principal of and interest on the 2019 Bonds.

Sufficiency of the deposits to the escrow fund to be held by the Escrow Bank under the 2007 Bonds Escrow Agreement for the redemption of the 2007 Bonds will be verified by the Verification Agent. Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the 2007 Bonds Escrow Agreement, the 2007 Bonds will be defeased pursuant to the provisions of the indenture under which the 2007 Bonds were issued as of the date of issuance of the 2019B Bonds.

Verification of Mathematical Computations. Upon issuance of the 2019B Bonds, the Verification Agent will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to the adequacy of the cash to be deposited in the respective escrow funds to pay the redemption price of the 2007 Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of the 2019 Bonds and other available moneys are summarized as follows:

Sources:	2019A Bonds	2019B Bonds	Total Bonds
Principal Amount	\$ 3,805,000.00	\$ 11,695,000.00	\$ 15,500,000.00
Plus Original Issue Premium	423,062.10	--	423,062.10
Plus Other Available Moneys ⁽¹⁾	<u>688,029.18</u>	<u>637,218.89</u>	<u>1,325,248.07</u>
Total Sources:	<u>\$ 4,916,091.28</u>	<u>\$ 12,332,218.89</u>	<u>\$ 17,248,310.17</u>
Uses:			
Escrow Funds	\$ 4,801,576.22	\$ 11,961,091.10	\$ 16,762,667.32
Costs of Issuance Fund ⁽²⁾	<u>114,515.06</u>	<u>371,127.79</u>	<u>485,642.85</u>
Total Uses:	<u>\$ 4,916,091.28</u>	<u>\$ 12,332,218.89</u>	<u>\$ 17,248,310.17</u>

⁽¹⁾ Includes moneys on deposit in funds and accounts of the Refunded Bonds.

⁽²⁾ Includes fees and expenses of Bond and Disclosure Counsel, Municipal Advisor, Fiscal Consultant, Trustee, Escrow Agent, Verification Agent and City Attorney, printing expenses, rating agency fees, Underwriter’s discount, premiums for the Policy and 2019 Reserve Policy, and other miscellaneous costs.

THE 2019 BONDS

Authority for Issuance

The 2019 Bonds are authorized for issuance pursuant to the Indenture, the Bond Law, the Redevelopment Law and the Dissolution Act. Direction to undertake the issuance of the 2019 Bonds and the execution of the related documents was authorized by the Agency pursuant to Resolution No. 2019-01 adopted on September 17, 2019 (the “Resolution”), and by the San Diego County Countywide Redevelopment Successor Agency Oversight Board (the “Oversight Board”) pursuant to Resolution No. OB-2019-023 adopted on September 19, 2019 (the “Oversight Board Action”).

Written notice of the Oversight Board Action was provided to the State Department of Finance (the “DOF”) pursuant to the Dissolution Act, and the DOF requested a review within five business days of such written notice. On November 22, 2019, which is within the time period allotted under the Dissolution Act for the DOF to review the Oversight Board’s approving resolution, the DOF provided a letter to the Agency stating that based on the DOF’s review and application of the law, the Oversight Board Action approving the 2019 Bonds is approved by the DOF. A copy of the DOF’s letter is set forth in Appendix F.

Description of the 2019 Bonds

The Bonds will be issued and delivered in fully-registered form without coupons in the denomination of \$5,000 or any integral multiple thereof for each maturity, initially in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York, as registered owner of all 2019 Bonds. The initially executed and delivered Bonds will be dated the date of delivery (the “Closing Date”) and mature on August 1 in the years and in the amounts shown on the inside cover page of this Official Statement.

Interest on the 2019 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Regular Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed on the Interest Payment Date by first class mail to such Owner at the address of such Owner as it appears on the Registration Books; provided, however, that upon the written request of any Owner of at least \$1,000,000 in principal amount of 2019 Bonds received by the Trustee at least fifteen (15) days prior to such Regular Record Date, payment shall be made by wire transfer in immediately available funds to an account in the United States designated by such Owner. Principal of and redemption premium (if any) on any 2019 Bond shall be paid upon presentation and surrender thereof, at maturity or redemption, at the Trust Office of the Trustee. Both the principal of and interest and premium (if any) on the 2019 Bonds shall be payable in lawful money of the United States of America Interest shall be calculated based upon a 360-day year of twelve thirty-day months.

Each 2019 Bond shall be initially dated as of the Delivery Date and shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Regular 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) a 2019 Bond is authenticated on or before January 15, 2020, in which event it shall bear interest from the Delivery Date; provided, however, that if, as of the date of authentication of any 2019 Bond, interest thereon is in default, such 2019 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry System

DTC will act as securities depository for the 2019 Bonds. The 2019 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the applicable series of 2019 Bonds, each in the aggregate principal amount of such maturity,

and will be deposited with DTC. See Appendix D for further information with respect to DTC and its book-entry system.

Redemption

Optional Redemption. The 2019A Bonds are not subject to optional redemption prior to maturity.

The 2019B Bonds maturing on and after August 1, 2034 are subject to redemption, at the option of the Agency on any date on or after August 1, 2029, in whole or in part, by such maturities as are determined by the Agency and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2019B Bonds maturing on August 1, 2034 (the “2034 Term Bonds”), are subject to mandatory redemption, in part by lot, from sinking account payments set forth in the following schedule on August 1, 2030, and on each August 1 thereafter to and including August 1, 2034, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; *provided, however*, that if some but not all of the 2034 Term Bonds have been optionally redeemed, the total amount of sinking account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2034 Term Bonds so redeemed by reducing each such future sinking account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Agency with the Trustee.

Redemption Date (August 1)	Principal Amount
2030	\$ 350,000
2031	370,000
2032	845,000
2033	1,055,000
2034 (maturity)	1,095,000

The 2019B Bonds maturing on August 1, 2037 (the “2037 Term Bonds”), are subject to mandatory redemption, in part by lot, from sinking account payments set forth in the following schedule on August 1, 2035, and on each August 1 thereafter to and including August 1, 2037, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; *provided, however*, that if some but not all of the 2037 Term Bonds have been optionally redeemed, the total amount of sinking account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the 2037 Term Bonds so redeemed by reducing each such future sinking account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the Agency with the Trustee.

Redemption Date (August 1)	Principal Amount
2035	\$ 1,535,000
2036	1,590,000
2037 (maturity)	1,660,000

Notice of Redemption. The Trustee on behalf of and at the expense of the Agency will mail (by first class mail, postage prepaid) notice of any redemption at least thirty (30) but not more than sixty (60) days prior to the redemption date, to (i) the Owners of any 2019 Bonds designated for redemption at their respective

addresses appearing on the Registration Books, and (ii) to the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access system, or its successor; but such mailing will not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein will affect the validity of the proceedings for the redemption of such 2019 Bonds or the cessation of the accrual of interest thereon. Such notice will state the redemption date and the redemption price, will designate the CUSIP number of the 2019 Bonds to be redeemed, state the individual number of each Bond to be redeemed or state that all 2019 Bonds between two stated numbers (both inclusive) or all of the 2019 Bonds Outstanding (or all 2019 Bonds of a maturity) are to be redeemed, and will require that such 2019 Bonds be then surrendered at the primary trust office of the Trustee for redemption at the said redemption price, giving notice also that further interest on such 2019 Bonds will not accrue from and after the redemption date.

The Agency shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled 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 2019 Bonds then called for redemption, and such cancellation shall not constitute an event of default under the Indenture. The Agency and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner and to the same recipients as the original notice of redemption was sent; provided, however, the notice of rescission shall not be required to be mailed within the time period required for the notice of redemption.

Partial Redemption of Bonds. In the event only a portion of any 2019 Bond is called for redemption, then upon surrender of such 2019 Bond the Agency shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Agency, a new 2019 Bond or 2019 Bonds of the same interest rate and maturity, of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the 2019 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the 2019 Bonds so called for redemption shall have been duly deposited with the Trustee, such 2019 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 accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Manner of Redemption. Whenever any 2019 Bonds or portions thereof are to be selected for redemption by lot, the Trustee shall make such selection, in such manner as the Trustee shall deem appropriate, and shall assign to each 2019 Bond then Outstanding a distinctive number for each \$5,000 of the principal amount of each such 2019 Bond. The 2019 Bonds to be redeemed shall be the 2019 Bonds to which were assigned numbers so selected, but only so much of the principal amount of each such 2019 Bond so selected. All 2019 Bonds redeemed or purchased pursuant to the Indenture shall be canceled and destroyed by the Trustee.

Purchase In Lieu of Redemption. In lieu of optional or sinking account redemption of 2019 Bonds, amounts on deposit in the Redevelopment Obligation Retirement Fund (to the extent not required to be transferred to the Trustee during the current Bond Year) may also be used and withdrawn by the Agency at any time for the purchase of the 2019 Bonds at public or private sale as and when and at such prices (including brokerage and other charges and including accrued interest) as the Agency may in its discretion determine. The par amount of any of the 2019 Bonds so purchased by the Agency and surrendered to the Trustee for cancellation in any twelve-month period ending on August 1, in any year will be credited towards and will reduce the principal amount of the 2019 Bonds otherwise required to be redeemed on the following August 1 pursuant to the Indenture.

Transfer of Bonds. Any 2019 Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such 2019 Bond to the Trustee at its Trust Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any 2019 Bond or 2019 Bonds shall be surrendered for registration of transfer, the Agency shall execute and the Trustee shall authenticate and deliver a new 2019 Bond or 2019 Bonds, of like series, interest rate, maturity and principal amount of authorized denominations. The Trustee shall collect any tax or other governmental charge on the transfer of any 2019 Bonds pursuant to the Indenture. The cost of printing any 2019 Bonds and any services rendered or any expenses incurred by the Trustee in connection with any exchange or transfer shall be paid by the Agency.

The Trustee may refuse to transfer, either (a) any 2019 Bonds during the period established by the Trustee for the selection of 2019 Bonds for redemption, or (b) any 2019 Bonds selected by the Trustee for redemption.

Exchange of Bonds. 2019 Bonds may be exchanged at the Trust Office of the Trustee for a like aggregate principal amount of 2019 Bonds of other authorized denominations of the same series, interest rate and maturity. The Trustee shall collect any tax or other governmental charge on the exchange of any 2019 Bonds pursuant to the Indenture. The cost of printing any 2019 Bonds and any services rendered or any expenses incurred by the Trustee in connection with any exchange or transfer shall be paid by the Agency.

The Trustee may refuse to transfer, either (a) any 2019 Bonds during the period established by the Trustee for the selection of 2019 Bonds for redemption, or (b) any 2019 Bonds selected by the Trustee for redemption.

Annual Debt Service

The table below sets forth the annualized debt service on the 2019 Bonds.

Bond Year (Amount Payable as of August 1)	2014 Bonds Debt Service	2019A Bonds Principal	2019A Bonds Interest	2019B Bonds Principal	2019B Bonds Interest	Total
2020	\$ 333,086.26	\$ 410,000.00	\$ 93,856.67	\$ 415,000.00	\$ 250,366.30	\$ 1,502,309.23
2021	334,186.26	370,000.00	135,800.00	270,000.00	396,786.40	1,506,772.66
2022	329,798.76	385,000.00	121,000.00	280,000.00	390,657.40	1,506,456.16
2023	335,411.26	395,000.00	105,600.00	280,000.00	383,993.40	1,500,004.66
2024	323,161.26	420,000.00	89,800.00	305,000.00	376,996.20	1,514,957.46
2025	326,161.26	435,000.00	73,000.00	310,000.00	369,069.26	1,513,230.52
2026	333,661.26	445,000.00	55,600.00	320,000.00	360,410.96	1,514,672.22
2027	328,092.50	465,000.00	37,800.00	330,000.00	351,057.36	1,511,949.86
2028	327,317.50	480,000.00	19,200.00	335,000.00	341,055.06	1,502,572.56
2029	986,112.50	--	--	350,000.00	330,566.20	1,666,678.70
2030	994,800.00	--	--	350,000.00	319,257.70	1,664,057.70
2031	994,800.00	--	--	370,000.00	306,549.20	1,671,349.20
2032	553,400.00	--	--	845,000.00	293,114.50	1,691,514.50
2033	373,200.00	--	--	1,055,000.00	262,432.56	1,690,632.56
2034	374,400.00	--	--	1,095,000.00	224,125.50	1,693,525.50
2035	--	--	--	1,535,000.00	184,366.06	1,719,366.06
2036	--	--	--	1,590,000.00	125,222.50	1,715,222.50
2037	--	--	--	1,660,000.00	63,959.80	1,723,959.80

Source: Underwriter.

SECURITY FOR THE 2019 BONDS

General

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit such amount in the Redevelopment Property Tax Trust Fund for the Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. Section 34177.5(g) of the Dissolution Act provides that any bonds authorized to be issued by the Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if the bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to that date; will be included in the Agency's Recognized Obligation Payment Schedule and will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to the Dissolution Act. Property tax revenues pledged to any bonds authorized to be issued by the Agency under the Dissolution Act, including the 2019 Bonds, are taxes allocated to the Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution. See Appendix B and the caption "—Recognized Obligation Payment Schedule."

Pursuant to Section 33670(b) of the Redevelopment Law and Section 16 of Article XVI of the State Constitution, and as provided in the Redevelopment Plan for the Project Area, taxes levied upon taxable property in the Project Area each year by or for the benefit of the State, any city, county, district, or other public corporation (herein sometimes collectively called "taxing agencies") after the effective date of the ordinance approving the redevelopment plan, or the respective effective dates of ordinances approving amendments to the redevelopment plan that added territory to the Project Area, as applicable, are to be divided as follows:

(a) To Taxing Agencies: That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the applicable Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the redevelopment plan, or the respective effective dates of ordinances approving amendments thereto that added territory to the Project Area, as applicable (each, a "base year valuation"), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and

(b) To the Former Agency/Agency: Except for that portion of the taxes in excess of the amount identified in (a) above which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of, and the interest on, any bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion shall be allocated to, and when collected shall be paid into, the fund of that taxing agency (as discussed under the caption "PROPERTY TAXATION IN CALIFORNIA—Article XIII A of the State Constitution"), that portion of the levied taxes each year in excess of such amount, annually allocated within the redevelopment plan limit, when collected will be paid into a special fund of the Former Agency. Section 34172(a) of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the Redevelopment Property Tax Trust Fund will be deemed to be a special fund of the Agency to pay the debt service on indebtedness incurred by the Former Agency or the Agency to finance or refinance the redevelopment projects of the Former Agency.

That portion of the levied taxes described in paragraph (b) above constitutes the amount required under the Dissolution Act to be deposited by the County Auditor-Controller into the Redevelopment Property

Tax Trust Fund. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989 date referred to in paragraph (b) above. SB 107 provides that debt service override revenues approved by the voters for the purpose of supporting pension programs or capital projects or programs related to the State Water Project that are not pledged to or not needed for debt service on Agency debt will be allocated and paid to the entity that levies the override. Prior to dissolution, the Former Agency's tax rate included the basic one percent levy and an aggregate of 0.1618 percent debt service override levies approved by voters prior to 1989 for Lemon Grove School District, Grossmont Union High School District and Grossmont-Cuyamaca Community College District. However, after dissolution, the County Auditor-Controller ceased allocating override levies to the Agency's Redevelopment Property Tax Trust Fund based on SB 107 and, accordingly, the projections of Pledged Tax Revenues set forth in Tables 5 and 6 under the caption "PLEDGED TAX REVENUES—Projected Pledged Tax Revenues" do not include override tax revenues.

The 2019 Bonds are payable from and secured by deposits into the Redevelopment Property Tax Trust Fund to be derived from the Project Area on a subordinate basis to amounts required to pay certain County administrative costs to the County, to pay amounts due to certain taxing entities under the Pass-Through Agreements, to pay Statutory Pass-Through Amounts and to pay 33676 Amounts. See the captions "—Tax Increment Financing—*Tax Sharing*" and "PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Property Tax Administrative Costs*."

The Agency has no power to levy and collect taxes, and various factors beyond its control could affect the amount of Pledged Tax Revenues available in any fiscal year (defined as July 1 through June 30) to pay the principal of and interest on the 2019 Bonds. See the captions "—Tax Increment Financing," "—Recognized Obligation Payment Schedule," "PROPERTY TAXATION IN CALIFORNIA" and "RISK FACTORS."

The 2019 Bonds are not a debt of the City, the State, or any of its political subdivisions (other than the Agency), and neither said City, said State, nor any of its political subdivisions (other than the Agency) is liable thereon, nor in any event will the 2019 Bonds be payable out of any funds or properties other than those of the Agency. The 2019 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

Pledged Tax Revenues

The 2019 Bonds and all Parity Bonds shall be equally secured by a pledge and lien on all of the Pledged Tax Revenues and on all of the moneys in the Redevelopment Obligation Retirement Fund and by a first and exclusive pledge and lien upon all of the moneys in the Debt Service Fund (including the Interest Account, the Principal Account, the Reserve Account and the Redemption Account therein) and any debt service fund created in connection with such Parity Bonds without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Pledged Tax Revenues and such moneys, no funds or properties of the Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the 2019 Bonds.

In consideration of the acceptance of the 2019 Bonds by those who shall own the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Agency and the Trustee for the benefit of the Owners from time to time of the 2019 Bonds, and the covenants and agreements herein set forth to be performed on behalf of the Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the 2019 Bonds without preference, priority or distinction as to security or otherwise of any of the 2019 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

"Pledged Tax Revenues" means the monies deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to subdivision (c) of Section 34172 of the Dissolution Act, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act, less all Statutory Pass-

Through Amounts, 33676 Amounts and all amounts required to be paid to other taxing entities pursuant to the Pass-Through Agreements to the extent such amounts are not subordinate to the 2019 Bonds. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution.

Pursuant to the Dissolution Act, former tax increment revenues generated in the Project Area are no longer required to be deposited into the Low and Moderate Income Housing Fund. Accordingly, and because, following the issuance of the 2019 Bonds and redemption of the Refunded Obligations, the Agency will have no obligations that are payable from the Low and Moderate Income Housing Fund, such revenues are now available and pledged to the repayment of the 2019 Bonds and Parity Bonds. See “SECURITY FOR THE 2019 BONDS—Tax Increment Financing—*Elimination of Housing Set-Aside*.”

Taxes levied on the property within the Project Area on that portion of the taxable valuation over and above the taxable valuation of the applicable base year property tax roll with respect to the various territories within the Project Area, to the extent that they constitute Pledged Tax Revenues as described below, will be deposited in the Redevelopment Property Tax Trust Fund for transfer by the County Auditor-Controller to the Agency’s Redevelopment Obligation Retirement Fund on January 2 and June 1 of each year to the extent required for payments listed in the Agency’s approved Recognized Obligation Payment Schedule in accordance with the requirements of the Dissolution Act. See the caption “—Recognized Obligation Payment Schedule.” Moneys deposited by the County Auditor-Controller into the Agency’s Redevelopment Obligation Retirement Fund will be transferred by the Agency to the Trustee for deposit in the Debt Service Fund established under the Indenture and administered by the Trustee in accordance with the Indenture.

Redevelopment Obligation Retirement Fund; Deposit of Pledged Tax Revenues

The Agency previously established the Redevelopment Obligation Retirement Fund pursuant to section 34170.5(a) of the Dissolution Act and agrees to hold and maintain the Redevelopment Obligation Retirement Fund as long as any of the 2019 Bonds and any Parity Bonds are Outstanding.

The Indenture provides that the Agency shall deposit all of the Pledged Tax Revenues received in any Bond Year in the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Agency, and promptly thereafter shall deposit amounts received therein first, to the Debt Service Fund established and held under the Indenture and the debt service fund established and held under the 2014 Indenture until such time during such Bond Year as the amounts so transferred to such funds under the Indenture and under 2014 Indenture are equal to the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Reserve Account and the Redemption Account of the Debt Service Fund and into the accounts held in the debt service fund established and held under the 2014 Indenture in such Bond Year pursuant to the Indenture and the 2014 Indenture and for deposit in such Bond Year in the funds and accounts established with respect to any additional Parity Bonds, as provided in any Supplemental Indenture.

Transfer of Amounts by Trustee

There has been established pursuant to the Indenture a trust fund to be known as the Debt Service Fund, which will be held by the Trustee under the Indenture in trust. Moneys in the Redevelopment Obligation Retirement Fund shall be transferred by the Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are established in the Debt Service Fund, and in the following order of priority:

Interest Account. On or before the 5th Business Day preceding each Interest Payment Date the Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the 2019 Bonds on such Interest Payment Date and the next following Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding 2019 Bonds. Subject to the Indenture, all moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the 2019 Bonds as it becomes due and payable (including accrued interest on any 2019 Bonds redeemed prior to maturity pursuant to the Indenture).

Principal Account. On or before the 5th Business Day preceding each August 1, beginning August 1, 2020, the Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount equal to the principal or sinking account payments becoming due and payable on the Outstanding 2019 Bonds on such August 1, to the extent monies on deposit in the Redevelopment Obligation Retirement Fund are available therefor. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal and sinking account payments to become due on such August 1 on all Outstanding 2019 Bonds. Subject to the Indenture, all moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal and sinking account payments of the 2019 Bonds as they become due and payable.

Reserve Account. In the event the Agency fails to deposit with the Trustee no later than five Business Days before any Interest Payment Date the full amount of the interest and principal and sinking account payments required to be deposited, the Trustee will, five Business Days before such Interest Payment Date, withdraw from the Reserve Account an amount equal to any such deficiency and will notify the Agency of any such withdrawal. To the extent that a Credit Facility (as defined in the Indenture), including the 2019 Reserve Policy, has been deposited into the Reserve Account, then the Trustee shall draw on such Credit Facility to cure any such deficiency, but only after all available moneys on deposit in said Reserve Account have been so used. Promptly upon receipt of any such notice, the Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Reserve Account an amount sufficient to maintain the share of the Reserve Requirement allocable to the 2019 Bonds on deposit in the Reserve Account or to repay an Insurer for any draws on a Credit Facility, including the 2019 Reserve Policy. If there is not sufficient moneys in the Redevelopment Obligation Retirement Fund to transfer an amount sufficient to maintain the share of the Reserve Requirement allocable to the 2019 Bonds on deposit in the Reserve Account or to repay an Insurer, as applicable, the Agency will have an obligation to continue making transfers of Pledged Tax Revenues into the Redevelopment Obligation Retirement Fund, as such revenues become available, and thereafter, as moneys become available in the Redevelopment Obligation Retirement Fund, will make transfers to the Reserve Account until there is an amount sufficient to maintain the share of the Reserve Requirement allocable to the 2019 Bonds on deposit in the Reserve Account or to the applicable Insurer until such Insurer has been made whole. No such transfer and deposit need be made to the Reserve Account so long as there is on deposit therein a sum at least equal to the share of the Reserve Requirement allocable to the 2019 Bonds. Subject to the Indenture, all money in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account (and the subaccounts therein, as the case may be), in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the 2019 Bonds then Outstanding, except that so long as the Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the share of the Reserve Requirement allocable to the 2019 Bonds will be withdrawn from the Reserve Account semiannually on or before the 5th Business Day preceding February 1 and August 1 by the Trustee and deposited in the Interest Account. All amounts in the Reserve Account on the 5th Business Day preceding the final Interest Payment Date will be withdrawn from the Reserve Account and will be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made or, (ii) if the Agency shall have caused to be deposited with the Trustee an

amount sufficient to make the deposits required by the Indenture, then at the Written Request of the Agency such amount shall be transferred as directed by the Agency.

The Reserve Account is established by the Indenture and is required to be funded in an amount at least equal to the share of the Reserve Requirement allocable to the 2019 Bonds. The Indenture defines “Reserve Requirement” to mean, as of the date of computation, an amount equal to the lesser of (i) Maximum Annual Debt Service on the 2019 Bonds and Parity Bonds, (ii) 10% of the net proceeds of the 2019 Bonds and Parity Bonds, or (iii) 125% of the Annual Debt Service on all 2019 Bonds and any Bonds Outstanding. The 2019 Reserve Policy is being issued in the amount of \$1,592,306.21, which is at least equal to the portion of the Reserve Requirement allocable to the 2019 Bonds both as of their date of delivery and as of the date that the 2014 Bonds mature. Amounts in the Reserve Account are to be used only for the payment of the principal of and interest on 2019 Bonds to the extent amounts in the Principal Account and/or the Interest Account are insufficient therefor.

The share of the Reserve Requirement allocable to the 2019 Bonds will be satisfied by the delivery of the 2019 Reserve Policy by the 2019 Insurer on the Closing Date. The Agency will have no obligation to replace the 2019 Reserve Policy or to fund the Reserve Account with cash if, at any time that the 2019 Bonds are Outstanding, any rating assigned to the 2019 Insurer is downgraded, suspended or withdrawn or amounts are not available under the 2019 Reserve Policy, other than in connection with a draw on the 2019 Reserve Policy.

Redemption Account. On or before the 5th Business Day preceding any date on which 2019 Bonds are to be redeemed, the Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Redemption Account an amount required to pay the principal of, interest and premium, if any, on the 2019 Bonds (other than 2019 Bonds redeemed from sinking account payments) to be redeemed on such date. Subject to the Indenture, all moneys in the Redemption Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of, interest and premium, if any, on the 2019 Bonds to be redeemed on the date set for such redemption.

Tax Increment Financing

General. Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming that the taxable valuation exceeds the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding bonds, including the 2019 Bonds, that are issued by a successor agency to be secured by a pledge of moneys deposited from time to time in a Redevelopment Property Tax Trust Fund held by a county auditor-controller with respect to that successor agency, which are equivalent to the tax increment revenues that were formerly allocated under the Redevelopment Law to the redevelopment agency and formerly authorized under the Redevelopment Law to be used for the financing of redevelopment projects, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the county auditor-controller. Under the Indenture, Pledged Tax Revenues consist of the amounts deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to and as provided in the Dissolution Act. Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See the caption “RISK FACTORS.”

Tax Sharing. The Redevelopment Law authorized redevelopment agencies to make payments to school districts and other taxing agencies to alleviate any financial burden or detriments to such taxing agencies caused by a redevelopment project. The Former Agency entered into three agreements for this purpose. (See the caption “—Pass-Through Agreements” below.) Additionally, Sections 33607.5 and 33607.7 of the Redevelopment Law required mandatory tax sharing applicable to redevelopment projects adopted after January 1, 1994, or amended thereafter in certain manners specified in such statutes (the “Statutory Pass-Through Amounts”). (See the caption “—Statutory Pass-Through Amounts” below.) Further, redevelopment project areas adopted between January 1, 1985 and January 1, 1994 were subject to payments to schools and to other affected taxing agencies that elected to receive tax revenue payments set forth under Section 33676 of the Law (“33676 Amounts”). (See the caption “—Section 33676 Election” below.)

The Dissolution Act requires the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund amounts required to be distributed pursuant to Pass-Through Agreements or as Statutory Pass-Through Amounts or 33676 Amounts to the taxing entities on each January 2 and June 1 before amounts are distributed by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund to the Agency’s Redevelopment Obligation Retirement Fund, unless: (i) pass-through payment obligations have been made subordinate to debt service payments for the bonded indebtedness of the Agency; (ii) the Agency has reported, no later than the December 1 and May 1 preceding the applicable January 2 or June 1 distribution date, that the total amount available to the Agency from the Redevelopment Property Tax Trust Fund allocation to the Agency’s Redevelopment Obligation Retirement Fund, from other funds transferred from the Former Agency and from funds that have or will become available through asset sales and all redevelopment operations, is insufficient to fund the Agency’s enforceable obligations, pass-through payments and the Agency’s administrative cost allowance for the applicable six-month period; and (iii) the State Controller has concurred with the Agency that there are insufficient funds for such purposes for the applicable six-month period.

The Dissolution Act provides for a procedure by which the Agency may make Statutory Pass-Through Amounts subordinate to the 2019 Bonds. The Agency has not undertaken the requisite procedures to obtain subordination of the Statutory Pass-Through Amounts and, therefore, amounts due as Statutory Pass-Through Amounts are senior in payment priority to the 2019 Bonds. See the caption “PLEDGED TAX REVENUES” for projections of Pledged Tax Revenues, which take into account projected payments under Pass-Through Agreements. See “THE PROJECT AREA” for additional information regarding assessed values and tax revenues generated in the Project Area.

Elimination of Housing Set-Aside. Before the dissolution of the Former Agency, the Redevelopment Law required the Former Agency to set aside not less than 20% of the gross tax increment allocated to the Former Agency from the Project Area, i.e., the “Housing Set-Aside,” in the Former Agency’s Low and Moderate Income Housing Fund, to be expended for low and moderate income housing purposes. Generally, the Former Agency was authorized to use the Housing Set-Aside to pay debt service on bonds solely to the extent that the proceeds of such bonds were used to finance or refinance low and moderate income housing projects. In contrast, under the Redevelopment Law, the Former Agency was authorized to use the portion of tax increment that was not part of the Housing Set-Aside (the “Non-Housing Portion”) to pay debt service on all bonds and other indebtedness of the Former Agency incurred to finance or refinance redevelopment projects for the Project Area, subject to limitations set forth in the indentures or other governing documents.

The Dissolution Act has eliminated the Low and Moderate Income Housing Fund and the requirement to deposit the Housing Set-Aside into such fund. None of the property tax revenues deposited in the Redevelopment Property Tax Trust Fund are designated as the Housing Set-Aside because the Agency has no obligations that are payable from the Housing Set-Aside. The Redevelopment Property Tax Trust Fund flow of funds under the Dissolution Act makes no distinction between bonds that were, in whole or in part, secured by and payable from the Housing Set-Aside and bonds that were solely secured by and payable from the Non-Housing Portion. In effect, after the Former Agency’s dissolution, all of the Agency’s outstanding bonds are

paid from Redevelopment Property Tax Trust Fund disbursements without distinction between obligations related to housing and non-housing projects.

Recognized Obligation Payment Schedule

On or before each February 1, with respect to each fiscal year, the Dissolution Act requires successor agencies to prepare and approve, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as such term is defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. As defined in the Dissolution Act, "enforceable obligation" includes bonds, including the required debt service, reserve set-asides and any other payments required under an indenture or similar documents governing the issuance of the outstanding bonds of the former redevelopment agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and amounts borrowed from the Low and Moderate Income Housing Fund. A reserve may be included on the Recognized Obligation Payment Schedule and held by the successor agency when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following half of the calendar year.

Under the Dissolution Act, the categories of sources of payments for enforceable obligations listed on a Recognized Obligation Payment Schedule are the following: (i) the Low and Moderate Income Housing Fund; (ii) bond proceeds; (iii) reserve balances; (iv) administrative cost allowance; (v) the Redevelopment Property Tax Trust Fund (but only to the extent that no other funding source is available or when payment from property tax revenues is required by an enforceable obligation or otherwise required under the Dissolution Act); or (vi) other revenue sources (including rents, concessions, asset sale proceeds, interest earnings, and any other revenues derived from the former redevelopment agency, as approved by the oversight board).

The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid, only those payments listed in the Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Each annual Recognized Obligation Payment Schedule may be amended once, provided that (i) the Agency submits the amendment to DOF no later than October 1, (ii) the Oversight Board makes a finding that the amendment is necessary for the payment of approved enforceable obligations during the second half of the Recognized Obligation Payment Schedule period (from January 1 to June 30, inclusive), and (iii) the Agency may only amend the amount requested for payment of approved enforceable obligations. DOF shall notify the Agency and the County Auditor-Controller as to whether the Agency's requested amendment is approved at least 15 days before the January 2 property tax distribution.

The Recognized Obligation Payment Schedule must be submitted by the Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the DOF and the State Controller by February 1 in each year with respect to the Agency's payment obligations during the next fiscal year. If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by such deadline, the City will be subject to a civil penalty equal to \$10,000 per day for every day that the schedule is not submitted. Additionally, the Agency's administrative cost allowance will be reduced by 25% for any fiscal year for which the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule within 10 days of the February 1 deadline. If the Agency fails to submit a Recognized Obligation Payment Schedule by the February 1 deadline, any creditor of the Agency or the DOF or any affected taxing entity shall have standing to, and may request a writ of mandate to, require the Agency to immediately perform this duty. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications thereof on the 2019 Bonds, see the caption "RISK FACTORS—Recognized Obligation Payment Schedule."

With respect to each Recognized Obligation Payment Schedule submitted by the Agency, the Dissolution Act requires the DOF to make a determination of the enforceable obligations and the amounts and funding sources available to pay approved enforceable obligations no later than April 15. Within five business days of the determination by the DOF, the Agency may request additional review by the DOF and an opportunity to meet and confer on disputed items, if any. The DOF will notify the Agency and the County Auditor-Controller as to the outcome of its review at least 15 days before the June 1 property tax distribution date preceding the applicable Recognized Obligation Payment Schedule period. Additionally, the County Auditor-Controller may review a submitted Recognized Obligation Payment Schedule and object to the inclusion of any items that are not demonstrated to be enforceable obligations and may object to the funding source proposed for any items, provided that the County Auditor-Controller must provide notice of any such objections to the Agency, the Oversight Board and the DOF at least 60 days prior to the next property tax distribution date.

See the caption “—Last and Final Recognized Obligation Payment Schedule” for a description of the Last and Final Recognized Obligation Payment Schedule authorized by the Dissolution Act pursuant to SB 107.

In connection with the allocation and distribution by the County Auditor-Controller of property tax revenues deposited in the Redevelopment Property Tax Trust Fund, under the Dissolution Act the County Auditor-Controller must prepare estimates of the amounts of: (i) property tax to be allocated and distributed; and (ii) the amounts of pass-through payments to be made for the upcoming fiscal year, and provide those estimates to the entities receiving the distributions and DOF by no later than October 1 and April 1 of each year, as applicable. If, after receiving such estimate from the County Auditor-Controller, the Agency determines and reports, no later than December 1 or May 1, as applicable, that the total amount available to the Agency from the Redevelopment Property Tax Trust Fund allocation to the Agency’s Redevelopment Obligation Retirement Fund, from other funds transferred from the Former Agency and from funds that have or will become available through asset sales and all redevelopment operations, is insufficient to fund the payment of pass-through obligations, Agency enforceable obligations listed on the Recognized Obligation Payment Schedule and the Agency’s administrative cost allowance, the County Auditor-Controller must notify the State Controller and the DOF by no later than 10 days from the date of the Agency’s notification. If the State Controller concurs that there are insufficient funds to pay required debt service, and if the Agency’s tax sharing obligations described in Section 34183(a)(1) of the Dissolution Act have been subordinated to the Agency’s enforceable obligations, then the Dissolution Act provides for certain adjustments to be made to the estimated distributions, as described in more detail under the caption “—Tax Increment Financing—*Tax Sharing*.”

The Dissolution Act provides that any bonds authorized to be issued by the Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if such bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provision of the Redevelopment Law that existed prior to such date, will be included in the Agency’s Recognized Obligation Payment Schedule and will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to the Dissolution Act. Additionally, if an enforceable obligation provides for an irrevocable commitment of property tax revenue and where allocation of revenues is expected to occur over time, the Dissolution Act provides that a successor agency may petition the DOF to provide written confirmation that its determination of such enforceable obligation as approved in a Recognized Obligation Payment Schedule is final and conclusive, and reflects the DOF’s approval of subsequent payments made pursuant to the enforceable obligation. If the confirmation is granted by the DOF, then the DOF’s review of such payments in each future Recognized Obligation Payment Schedule will be limited to confirming that they are required by the prior enforceable obligation.

The Agency covenants in the Indenture to comply with all of the requirements of the Dissolution Act. The Agency covenants to take all actions required under the Dissolution Act to prepare and file Recognized Obligation Payment Schedules so as to enable the San Diego County Auditor-Controller to distribute from the

Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund all amounts as shall be required to enable the Agency to pay timely principal of, and interest on, the Bonds and all outstanding Parity Bonds coming due in such Bond Year.

Without limiting the generality of the foregoing paragraph, the Agency will take all actions required under the Dissolution Act to include on the Recognized Obligation Payment Schedules for each Semiannual Period all payments to the Trustee to satisfy the requirements of the Indenture and the 2014 Indenture, including any amounts required to replenish the Reserve Account established for the 2019 Bonds and Parity Bonds. In addition, the Agency will take all actions required under the Dissolution Act to include scheduled debt service on the 2019 Bonds and Parity Bonds, as well as any amount required to replenish the respective reserve accounts established for the 2019 Bonds and Parity Bonds and amounts due to any Insurer under the Indenture or under an insurance or surety bond agreement, in Recognized Obligation Payment Schedules for each Semiannual Period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Redevelopment Obligation Retirement Fund on each January 2 and June 1, the amounts required to be transferred to the Trustee to pay principal of and interest on the 2019 Bonds and Parity Bonds coming due in the calendar year. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and the California Department of Finance, to the extent required, the amounts to be held by the Agency as a reserve until the next Semiannual Period that are required to provide for the payment of principal of and interest on the Bonds and Parity Bonds. Further, to the extent that any subordinated pass-through amounts are necessary to pay debt service on the 2019 Bonds and Parity Bonds, the Agency covenants to comply with the requirements of Health & Safety Code Section 34183(b) to ensure that the subordinated pass-through amounts are paid to the Agency.

With regard to each Semiannual Period ending on June 30 of a calendar year, the Agency shall include in the Recognized Obligation Payment Schedule for such Semiannual Period an amount which is at least equal to the sum of (a) the full amount of principal and interest on the 2019 Bonds and Parity Bonds coming due and payable on the succeeding February 1 and August 1.

In addition, the Agency shall place on the applicable Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF, to the extent necessary, the amounts to be held by the Agency as a reserve until the following half of the calendar year, as contemplated by paragraph (1)(A) of subdivision (d) of section 34171 of the Dissolution Act and any amount required to be deposited in the Reserve Account in order to maintain in the Reserve Account the amount at least equal to the Reserve Requirement. See Appendix B.

Last and Final Recognized Obligation Payment Schedule

SB 107 amended the Dissolution Act to permit a successor agency to submit a Last and Final Recognized Obligation Payment Schedule (a "Last and Final ROPS") for approval by the oversight board and DOF if: (i) the successor agency's only remaining debt is administrative costs and payments pursuant to enforceable obligations with defined payment schedules, (ii) all remaining obligations have been previously listed on a Recognized Obligation Payment Schedule and approved by DOF, and (iii) the successor agency is not a party to outstanding or unresolved litigation. The Last and Final ROPS must list the remaining enforceable obligations of the successor agency in the following order: (A) enforceable obligations to be funded from the Redevelopment Property Tax Trust Fund, (B) enforceable obligations to be funded from bond proceeds or other legally or contractually dedicated or restricted funding sources, and (C) loans or deferrals authorized for repayment to the city that created the redevelopment agency or the successor to the former redevelopment agency's housing functions and assets. The Last and Final ROPS must also include the total outstanding obligation and a schedule of remaining payments for each enforceable obligation described in (A) and (B) above, and the total outstanding obligation and an interest rate of 4%, for any loans or deferrals listed pursuant to (C) above. The Last and Final ROPS shall also establish the maximum amount of Redevelopment Property Tax Trust Funds to be distributed to the successor agency for each remaining fiscal year until all obligations have been fully paid. DOF approval is required for any Last and Final ROPS to

become effective. The county auditor-controller shall also review the Last and Final ROPS and provide any objection to the inclusion of any items or amounts to DOF.

Successor agencies may only amend an approved Last and Final ROPS twice. Approval by the oversight board and DOF is required for any amendment to a Last and Final ROPS to become effective. The Dissolution Act provides DOF with 100 days to approve or deny an amendment to a Last and Final ROPS. Each amended Last and Final ROPS approved by DOF shall become effective in the subsequent Redevelopment Property Tax Trust Fund distribution period. If an amended Last and Final ROPS is approved less than 15 days before the date of the property tax distribution, the Last and Final ROPS shall not be effective until the subsequent Redevelopment Property Tax Trust Fund distribution period.

Any revenues, interest, and earnings of the successor agency, including proceeds from the disposition of real property, that are not authorized for use pursuant to the approved Last and Final ROPS shall be remitted to the county auditor-controller for distribution to the affected taxing entities. A successor agency shall not expend more than the amount approved for each enforceable obligation listed on the approved Last and Final ROPS. The county auditor-controller shall no longer distribute property tax to the successor agency's Redevelopment Property Tax Trust Fund once the aggregate amount of property tax allocated to the successor agency equals the total outstanding obligation approved in the Last and Final ROPS. Commencing on the effective date of the approved Last and Final ROPS, the successor agency shall not prepare or transmit annual Recognized Obligation Payment Schedules.

After the Last and Final ROPS is approved by DOF, the county auditor-controller shall continue to allocate moneys in the successor agency's Redevelopment Property Tax Trust Fund pursuant to Section 34183 of the Dissolution Act; however, the county auditor-controller shall allocate such moneys in each fiscal period, after deducting the county auditor-controller's administrative costs, in the following order of priority: (A) pass through payments pursuant to Section 34183(a)(1) of the Dissolution Act, (B) scheduled debt service payments on tax allocation bonds listed and approved in the Last and Final ROPS, (C) scheduled payments on revenue bonds listed and approved in the Last and Final ROPS, but only to the extent the revenues pledged for them are insufficient to make the payments and only if the successor agency's tax increment revenues were also pledged for the repayment of bonds, (D) scheduled payments for debts and obligations listed and approved in the Last and Final ROPS to be paid from the Redevelopment Property Tax Trust Fund, (E) payments listed and approved on the Last and Final ROPS that were authorized but unfunded in prior periods, (F) repayment of loans and deferrals to the city that created the redevelopment agency or the successor to the former redevelopment agency's housing functions and assets that are listed and approved on the Last and Final ROPS, and (G) any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers described in (A) to (F), above, shall be distributed to taxing entities in accordance with Section 34183(a)(4) of the Dissolution Act.

If the successor agency reports to the county auditor-controller that the total available amounts in the Redevelopment Property Tax Trust Fund will be insufficient to fund the successor agency's current or future fiscal year obligations, and if the county auditor-controller concurs that there are insufficient funds to pay the required obligations, the county auditor-controller may divert subordinated pass-through payments to the successor agency pursuant to Section 34183(b) of the Dissolution Act. See the caption "—Tax Increment Financing."

The Agency has no current plans to file a Last and Final ROPS. Further, the Agency has covenanted in the Indenture not to submit to the Oversight Board or the California Department of Finance a request for the final amendment permitted for its Last and Final ROPS without the prior written consent of the 2019 Insurer unless all amounts that could become due to the 2019 Insurer are included as a line item on the Last and Final ROPS, as amended.

Pass-Through Agreements

Prior to 1994, under the Law, a redevelopment agency could enter into an agreement to pay former tax increment revenues to any affected taxing agency that has territory located within a redevelopment project in an amount which in the redevelopment agency's determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These Pass-Through Agreements normally provided for payment or pass-through of tax increment revenue directed to the affected taxing agency, and, therefore, are commonly referred to as pass-through agreements or tax sharing agreements.

The Former Agency entered into two Pass-Through Agreements with certain taxing agencies with respect to some or all of the Project Area. However, the Former Agency's Pass-Through Agreement with the Lemon Grove School District expired in Fiscal Year 2006-07. The Agency's only currently outstanding Pass-Through Agreement, with the County, is briefly summarized below and is treated as senior to the payment of debt service on the 2019 Bonds. See the caption "PLEDGED TAX REVENUES—Projected Pledged Tax Revenues."

On December 7, 1987, the County and the Agency entered into a tax sharing agreement pursuant to which the Agency is to pass through to the County 50% of the County's share of general levy tax increment revenue through fiscal year 2006-07, and 100% of the County's share of general levy tax increment revenue and inflationary growth beginning in fiscal year 2007-08. The County's share of general levy tax increment revenue is stipulated in the agreement as 24.98% of the general levy. In addition, the County will be entitled to the full amount of any increase in tax override that may be levied on its behalf.

Statutory Pass-Through Amounts

Assembly Bill 1290 (Chapter 942, Statutes of 1993) ("AB 1290"), effective January 1, 1994, eliminated the statutory authority for negotiated pass-through agreements and provided a formula for mandatory tax sharing, applicable to projects adopted after January 1, 1994 or amended after that date to add territory or make certain other amendments. These payments, which are to begin the fiscal year following the year a redevelopment plan was adopted (if after January 1, 1994) or the fiscal year following the year that a redevelopment plan's original plan limitations would have taken effect (in the case of pre-1994 redevelopment plans), are calculated using the increase in revenue above the amount of revenue generated by the project area in the year that the redevelopment plan was adopted or the former limit would have been reached, as applicable. Under the Dissolution Act, in particular Section 34183, the County Auditor-Controller is obligated to remit these Statutory Pass-Through Amounts to the affected taxing entities from the Agency's RPTTF for each ROPS period.

As further described herein under the caption "THE PROJECT AREA," the City adopted several ordinances amending the Redevelopment Plan after January 1, 1994 and, accordingly, the Agency is required to pay the Statutory Pass-Through Amounts to affected taxing agencies that did not enter into Pass-Through Agreements with the Former Agency. These tax sharing payments continue so long as tax increment is available to repay indebtedness in the Project Area. The Statutory Pass-Through Amounts are determined by specific formulas under the Law; and post-dissolution, these payment obligations of the Agency to affected taxing entities are administered by the County Auditor-Controller under the Dissolution Act. See "PLEDGED TAX REVENUES—Projected Pledged Tax Revenues" for a projection of such payments.

Generally speaking, under the Law as amended by AB 1290 and as the obligation continues under the Dissolution Act, the Agency is required to pay to the affecting taxing entities percentages of tax increment generated in the Project Area as the Statutory Pass-Through Amounts, as follows:

1. following the adoption of the redevelopment plan or expiration of the existing time limit to incur debt (as applicable) and thereafter, 25% of tax increment revenues (after deducting the Housing Set-Aside amount); plus,

2. for the eleventh year following the triggering event and thereafter, 21% of revenues in excess of tenth year revenue (after deducting the Housing Set-Aside amount); plus,

3. for the thirty-first year following the triggering event and thereafter, 14% of revenues in excess of thirtieth year revenues (after deducting the Housing Set-Aside amount).

The payments of the Statutory Pass-Through Amounts to the affected taxing entities are allocated among each affected taxing entity in proportion to the share of property taxes each affected taxing entity received in the year funds are allocated. As indicated, amounts specified as payable to affected taxing entities are computed after deducting the Housing Set-Aside amounts even though the Agency no longer receives Housing Set-Aside under the Dissolution Act. The Statutory Pass-Through Amounts have not been subordinated to the 2019 Bonds. See the caption “—Tax Increment Financing—*Tax Sharing*.” Also see the caption “PLEDGED TAX REVENUES—Projected Pledged Tax Revenues.” For more information about the Statutory Pass-Through Amounts, see the Fiscal Consultant’s Report attached to this Official Statement as Appendix A.

Section 33676 Election

Prior to the enactment of AB 1290, redevelopment project areas adopted between January 1, 1985 and January 1, 1994 were subject to payments to schools and to other affected taxing agencies that elected to receive tax revenue payments set forth under Section 33676 of the Law (“33676 Amounts”). The annual payments represent that portion of property taxes that are, or otherwise would be, calculated annually pursuant to subdivision (f) of Section 110.1 of the Revenue and Taxation Code (and referred to as the 2% inflation allocation).

The following taxing entities within the Project Area are receiving payments under Section 33676:

Grossmont Union High School District
Grossmont-Cuyamaca Community College District
San Diego County Office of Education

33676 Amounts will be paid prior to debt service of the 2019 Bonds. See the caption “—Tax Increment Financing—*Tax Sharing*.” Also see the caption “PLEDGED TAX REVENUES—Projected Pledged Tax Revenues.” For more information regarding the 33676 Amounts payable by the Agency, see the Fiscal Consultant’s Report attached to this Official Statement as Appendix A.

Issuance of Additional Indebtedness

No Additional Senior Obligations. Under the Indenture, the Agency has covenanted that it will not issue additional bonds or incur additional obligations that are payable from moneys deposited in the Redevelopment Property Tax Trust Fund on a senior basis to the 2019 Bonds.

Upon the issuance of the 2019 Bonds there will be no bonds outstanding with a pledge or lien on the Pledged Tax Revenues senior to the 2019 Bonds.

Parity Debt. In addition to the 2019 Bonds and the 2014 Bonds, subject to the requirements of the Indenture and the 2014 Indenture, the Agency may issue or incur Additional Parity Bonds in such principal amount as shall be determined by the Agency, pursuant to a separate or Supplemental Indenture adopted or entered into by the Agency and Trustee and for such purposes as are permitted under the Dissolution Act, including without limitation section 34177.5 thereof. The Agency may issue or incur such Parity Bonds subject to the certain specific conditions precedent set forth in the Indenture. In general, under the Dissolution Act, successor agencies may only issue bonds for refunding purposes; accordingly, additional Parity Bonds may only be issued to refund the 2014 Bonds or the 2019 Bonds. See Appendix B.

Subordinate Obligations. The Agency has various significant enforceable obligations that are, or will be, listed on the Agency's Recognized Obligation Payment Schedules and paid from moneys deposited in the Agency's Redevelopment Property Tax Trust Fund from time to time. The Agency has determined that these obligations are either subordinate to the 2019 Bonds or not secured by a pledge of Pledged Tax Revenues. Nothing contained in the Indenture prevents the Agency from issuing additional bonds or incurring other loans, advances or indebtedness payable from Pledged Tax Revenues on a subordinate basis to the 2019 Bonds.

BOND INSURANCE

The information under this caption has been prepared by Build America Mutual Assurance Company ("BAM" or "2019 Insurer") for inclusion in this Official Statement. Neither the Agency nor the Underwriter has reviewed this information, nor does the Agency or the Underwriter make any representation with respect to the accuracy or completeness thereof. The following information is not complete and reference is made to Appendix I for a specimen of the Policy.

Bond Insurance Policy

Concurrently with the issuance of the 2019 Bonds, BAM will issue its Municipal Bond Insurance Policy for the 2019 Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the 2019 Bonds when due as set forth in the form of the Policy included as Appendix I to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the 2019 Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the 2019 Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the 2019 Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the 2019 Bonds, nor does it guarantee that the rating on the 2019 Bonds will not be revised or withdrawn.

Capitalization of BAM. BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$552.8 million, \$130.8 million and \$422.1 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the 2019 Bonds or the advisability of investing in the 2019 Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the 2019 Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the 2019 Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the 2019 Bonds, whether at the initial offering or otherwise.

PROPERTY TAXATION IN CALIFORNIA

Property Tax Collection Procedures

Classification. In the State, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” Secured and unsecured property is entered on separate parts of the assessment roll maintained by county assessors. The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens on the secured property arising pursuant to State law, regardless of the time of the creation of other liens. See the caption “RISK FACTORS—Bankruptcy and Foreclosure” for certain limitations on the priority of secured tax liens under federal law, however.

Generally, *ad valorem* taxes are collected by a county for the benefit of the various taxing agencies (cities, schools and special districts) that share in the *ad valorem* tax (each, a taxing entity) and successor agencies eligible to receive distributions from the respective Redevelopment Property Tax Trust Fund.

Collections. The method of collecting delinquent taxes is substantially different for secured and unsecured property. Counties have four ways of collecting unsecured personal property taxes: (i) initiating a civil action against the taxpayer; (ii) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (iii) filing a certificate of delinquency for record in the county recorder’s office to obtain a lien on certain property of the taxpayer; and (iv) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

Penalty. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is declared in default by operation of law and declaration of the tax collector on or about June 30 of each fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also applies to delinquent taxes with respect to property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on varying dates related to the tax bill mailing date.

Delinquencies. The valuation of property is determined as of the January 1 lien date as equalized in August of each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due January 1 and become delinquent August 31. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the Teeter Plan), as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State. Accordingly, the County Auditor-Controller distributes 100% of tax increment revenues allocated to each redevelopment successor agency in the County without regard to delinquencies in the payment of property taxes. As a result of this allocation method, the Agency receives no adjustments for redemption payments on delinquent collections. The Agency does receive supplemental taxes and refunds, if any, are deducted from amounts available for deposit to the Redevelopment Property Tax Trust Fund. There can be no assurance that the County Auditor-Controller will not change its policies with respect to delinquencies in property tax payments in the future.

Supplemental Assessments. California Revenue and Taxation Code Section 75.70 provides for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Prior to the enactment of this law, the assessment of such changes was permitted only as

of the next tax lien date following the change, which delayed the realization of increased property taxes from the new assessments for up to 14 months. Revenue and Taxation Code Section 75.70 provides increased revenue to the Redevelopment Property Tax Trust Fund to the extent that supplemental assessments of new construction or changes of ownership occur within the boundaries of the Project Area subsequent to the January 1 lien date. To the extent that such supplemental assessments occur within the Project Area, Pledged Tax Revenues may increase. However, because supplemental assessments cannot be accurately projected, no provision has been made by the Fiscal Consultant to reflect the impact of supplemental assessments on Pledged Tax Revenues. See Appendix A.

Property Tax Administrative Costs. In 1990, the State Legislature enacted Senate Bill (“SB”) 2557 (Chapter 466, Statutes of 1990) which allows counties to charge for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions in proportion to the tax-derived revenues allocated to each. SB 1559 (Chapter 697, Statutes of 1992) explicitly includes redevelopment agencies among the jurisdictions which are subject to such charges. In addition, Sections 34182(e) and 34183(a) of the Dissolution Act allow administrative costs of the County Auditor-Controller for the cost of administering the provisions of the Dissolution Act, as well as the foregoing SB 1559 amounts, to be deducted from Pledged Tax Revenues. The County’s total administrative charge for the Project Area, deducted from the Fiscal Year 2017-18 Redevelopment Property Tax Trust Fund allocation to the Agency, amounted to approximately 1.8% of the total gross tax revenue allocation for such period. The Fiscal Consultant assumes that the County property tax administration will continue to be annually charged at this percentage factor to the gross tax revenue generated by the Project Area in subsequent fiscal years. See the projections set forth in the Fiscal Consultant’s Report attached as Appendix A and under the caption “PLEGGED TAX REVENUES—Projected Pledged Tax Revenues” herein.

Pass-Through Agreements. Prior to 1994, under the Redevelopment Law, a redevelopment agency could enter into an agreement to pay tax increment revenues to any taxing agency that has territory located within a redevelopment project in an amount which in the redevelopment agency’s determination was appropriate to alleviate any financial burden or detriment caused by the redevelopment project. Such agreements normally provide for payment or pass-through of tax increment revenue directed to the affected taxing agency, and, therefore, are commonly referred to as pass-through agreements or tax sharing agreements. The Agency’s agreements with affected taxing agencies are referred to herein as “Pass-Through Agreements.” See the caption “SECURITY FOR THE 2019 Bonds—Pass-Through Agreements” for a discussion of Pass-Through Agreements for the Project Area and the treatment of Pass-Through Agreements under the Dissolution Act.

Statutory Pass-Through Amounts. The payment of Statutory Pass-Through Amounts results from: (i) redevelopment plan amendments which add territory in existing project areas on or after January 1, 1994; and (ii) redevelopment plan amendments which eliminate, extend or increase one or more limitations within a redevelopment plan (such as the removal of the time limit on the establishment of loans, advances and indebtedness). The calculation of the amount due to affected taxing entities is described in Sections 33607.5 and 33607.7 of the Redevelopment Law. See the caption “SECURITY FOR THE 2019 BONDS—Statutory Pass-Through Amounts” for a discussion of the Agency’s obligation to pay Statutory Pass-Through Amounts to affected taxing agencies. Also see the caption “SECURITY FOR THE 2019 BONDS—Tax Increment Financing—*Tax Sharing.*”

33676 Amounts. The Agency is required to pay certain inflationary increases in tax increment revenues referred to herein as 33676 Amounts to certain educational taxing agencies. See the caption “SECURITY FOR THE 2019 BONDS—Section 33676 Election” for a discussion of the Agency’s obligation to pay 33676 Amounts. Also see the caption “SECURITY FOR THE 2019 bonds—Tax Increment Financing—*Tax Sharing.*”

Recognized Obligation Payment Schedule. The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid, only those payments listed in the

Recognized Obligation Payment Schedule may be made by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each February 1, with respect to the following fiscal year, the Dissolution Act requires successor agencies to prepare and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Pledged Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to each June 1 property tax distribution date. See the caption "SECURITY FOR THE 2019 BONDS—Recognized Obligation Payment Schedule" and "RISK FACTORS—Recognized Obligation Payment Schedule." See also "SECURITY FOR THE 2019 BONDS—Last and Final Recognized Obligation Payment Schedule" for a description of the Last and Final ROPS authorized by the Dissolution Act pursuant to SB 107.

Unitary Property

Assembly Bill ("AB") 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated to each tax rate area on a pro rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property was changed from March 1 to January 1.

AB 454 (Statutes of 1987, Chapter 921) further modified Chapter 1457 regarding the distribution of tax revenues derived from property assessed by the State Board of Equalization. AB 454 provides for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. AB 454 further provides for a new method of establishing tax rates on State-assessed property and distribution of property tax revenue derived from State-assessed property to taxing jurisdictions within each county in accordance with a new formula. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is located. The intent of AB 2890 and AB 454 is to provide redevelopment agencies with their appropriate share of revenue generated from property assessed by the State Board of Equalization.

Actual unitary revenues were \$31,272 for Fiscal Year 2018-19. Unitary tax revenues are pledged to payment of the 2019 Bonds; however, the projections of Pledged Tax Revenues set forth in Tables 5 and 6 under the caption "PLEDGED TAX REVENUES—Projected Pledged Tax Revenues" and in the Fiscal Consultant's Report attached hereto as Appendix A do not include unitary revenues.

Article XIII A of the State Constitution

On June 6, 1978, State voters approved an amendment (commonly known as Proposition 13 or the Jarvis-Gann Initiative) which added Article XIII A to the State Constitution. Article XIII A limits the amount of *ad valorem* taxes on real property to 1% of "full cash value" of such property, as determined by the county assessor. Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the State fiscal year 1975-76 tax bill under 'full cash value,' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." Furthermore, the "full cash value" of all real property may be increased to reflect the rate of inflation, as shown by the consumer price index, not to exceed 2% per year, or may be reduced. Each year the State Board of Equalization announces the applicable adjustment factor. Since the adoption of Proposition 13, inflation has, in most years, exceeded 2% and the announced factor has reflected the 2% cap. The changes in the California Consumer Price Index from October of one year and October of the next year are used to

determine the adjustment factor for the January assessment date. During the ten previous Fiscal Years, the inflation factor has been less than 2% on five occasions. The table below reflects the inflation adjustment factors for Fiscal Year 2019-20, the current Fiscal Year, and the 10 prior Fiscal Years.

Historical Inflation Adjustment Factors

<i>Fiscal Year</i>	<i>Inflation Adj. Factor</i>
2009-10	2.000%
2010-11	-0.237
2011-12	0.753
2012-13	2.000
2013-14	2.000
2014-15	0.454
2015-16	1.998
2016-17	1.525
2017-18	2.000
2018-19	2.000
2019-20	2.000

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

Article XIII A: (i) exempts from the 1% tax limitation taxes to pay debt service on: (a) indebtedness approved by the voters prior to July 1, 1978; or (b) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition; (ii) requires a vote of two-thirds of the qualified electorate to impose special taxes, or certain additional *ad valorem* taxes; and (iii) requires the approval of two-thirds of all members of the State Legislature to change any State tax laws resulting in increased tax revenues.

The validity of Article XIII A has been upheld by both the State Supreme Court and the United States Supreme Court.

In the general election held on November 4, 1986, voters of the State approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms “purchase” and “change of ownership,” for the purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of: (1) real property between spouses; and (2) the principal residence and the first \$1,000,000 of other property between parents and children. This amendment to Article XIII A may reduce the rate of growth of local property tax revenues.

Proposition 60 amended Article XIII A to permit the State Legislature to allow persons over the age of 55 who sell their residence and buy or build another of equal or lesser value within two years in the same county to transfer the old residence assessed value to the new residence. As a result of the State Legislature’s action, the growth of property tax revenues may decline.

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

Appropriations Limitation – Article XIII B

On November 6, 1979, State voters approved Proposition 4 (also known as the Gann Initiative), which added Article XIII B to the State Constitution. Article XIII B limits the annual appropriations of the State and its political subdivisions to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity. The “base year” for establishing such appropriations limit is State fiscal year 1978-79, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness is not deemed to be the receipt by an agency of proceeds of taxes levied by or on behalf of an agency within the meaning of Article XIII B, nor will such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two State appellate court decisions. On the basis of these decisions, the Agency does not believe that it is subject to Article XIII B and has not adopted an appropriations limit.

Articles XIII C and XIII D of the State Constitution

At the election held on November 5, 1996, Proposition 218 was passed by the voters of California. The initiative added Articles XIII C and XIII D to the State Constitution. Provisions in the two articles affect the ability of local government to raise revenues. The 2019 Bonds are secured by sources of revenues that are not subject to limitation by Proposition 218. See the caption “—Propositions 218 and 26.”

Proposition 87

On November 8, 1988, the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the State Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on certain bonded indebtedness issued by a taxing entity (not the Former Agency or the Agency) and approved by the voters of the taxing entity after January 1, 1989 will be allocated solely to the payment of such indebtedness, and *not* to redevelopment agencies. SB 107, which became effective on September 22, 2015, amended Section 34183(a)(1) of the Dissolution Act to provide that such debt service override revenues approved by the voters for the purpose of supporting pension programs or capital projects or programs related to the State Water Project that are not pledged to or not needed for debt service on Agency debt will be allocated and paid to the entity that levies the override. See “SECURITY FOR THE 2019 BONDS—General.”

Redevelopment Plan Limits

SB 107, which became effective September 22, 2015, amended the Dissolution Act to provide that the time limits for receiving property tax revenues and the limitation on the amount of property tax revenues that may be received by the Former Agency and the Agency set forth in the Redevelopment Plan are not effective for purposes of paying the Agency’s enforceable obligations. Accordingly, the projections set forth in this Official Statement and in the Fiscal Consultant’s Report attached to this Official Statement as Appendix A do not take into account the time and financial limitations set forth in the Redevelopment Plan for the Project Area. See the captions “THE PROJECT AREA—General” and “—Plan Limits.”

The County Auditor-Controller will only deposit revenues into the RPTTF for Project Areas that reach their Plan Limits in the future if the Agency demonstrates that such revenues are needed to pay the Agency’s enforceable obligations. See the captions “RISK FACTORS— Effect of Redevelopment Plan Limits.”

Appeals of Assessed Values

Pursuant to State law, a property owner may apply for a reduction of the property tax assessment for such owner's property by filing a written application, in a form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board.

In the County, a property owner desiring to reduce the assessed value of such owner's property in any one year must submit an application to the County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by November 30 of such tax year. Following a review of each application by the staff of the County Assessor's Office, the staff makes a recommendation to the Appeals Board on each application which has not been rejected for incompleteness or untimeliness or withdrawn. The Appeals Board holds a hearing and either reduces or confirms the assessment. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as "ongoing hardship"), the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. Appeals for reduction in the "base year" value of an assessment, which generally must be made within three years of the date of change in ownership or completion of new construction that determined the base year, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. Moreover, in the case of any reduction in any one year of assessed value granted for "ongoing hardship" in the then current year, and also in any cases involving stipulated appeals for prior years relating to base year and personal property assessments, the property tax revenues from which Pledged Tax Revenues are derived attributable to such properties will be reduced in the then current year. In practice, such a reduced assessment may remain in effect beyond the year in which it is granted. See Appendix A for information regarding the appeals pending with respect to the assessed valuations of the top ten property owners within the Project Area.

Proposition 8

Proposition 8, approved in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions pursuant to Proposition 8 may be initiated by the County Assessor or requested by the property owner, and such reductions apply only to a single tax year.

After a roll reduction is granted pursuant to Proposition 8, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

The County Assessor has the ability to use Proposition 8 criteria to apply blanket reductions in valuation to classes of property affected by particular negative economic conditions. The Agency is aware that the County Assessor made such reductions to assessed values of residential property in the Project Area and the City generally in recent fiscal years, a portion of which reductions have now been restored. The Fiscal Consultant's Report does not assume any future reductions in assessed valuations as a result of Proposition 8, but there can be no assurance that such reductions will not be made in the future. See the caption "THE PROJECT AREA" for further information with respect to reductions in assessed value within the Project Area in the last five fiscal years.

Propositions 218 and 26

On November 5, 1996, State voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. On November 2, 2010, California voters approved Proposition 26, the “Supermajority Vote to Pass New Taxes and Fees Act.” Proposition 26 amended Article XIII C of the State Constitution by adding an expansive definition for the term “tax,” which previously was not defined under the State Constitution. Pledged Tax Revenues securing the 2019 Bonds are derived from property taxes which are outside the scope of taxes, assessments and property-related fees and charges which are limited by Proposition 218 and outside of the scope of taxes which are limited by Proposition 26.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D to the State Constitution and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency’s ability to expend revenues.

THE SUCCESSOR AGENCY TO THE LEMON GROVE COMMUNITY DEVELOPMENT AGENCY

The Former Agency was established by the City Council of the City and was activated by Ordinance adopted by the City Council on May 16, 1986, pursuant to the Redevelopment Law. On June 29, 2011, AB X1 26 was enacted as Chapter 5, Statutes of 2011, together with a companion bill, AB X1 27. A lawsuit entitled California Redevelopment Association, et al. v. Matosantos, et al., was brought in the State Supreme Court challenging the constitutionality of AB X1 26 and AB X1 27. In a published decision (53 Cal. 4th 231 (Dec. 29, 2011)), the State Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the State Supreme Court, as of February 1, 2012, all redevelopment agencies in the State, including the Former Agency, were dissolved, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

Pursuant to Section 34173 of the Dissolution Act, the City Council of the City serves as the successor agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Agency is a separate public entity from the City, that the two entities shall not merge and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City.

The Agency is governed by the five-member legislative body (the “Board”) which consists of the City Council of the City. The Mayor acts as the Chair of the Board, the City Manager as its Executive Director, the City Clerk as its Secretary and the Administrative Services Director of the City as its Treasurer.

Agency Powers

All powers of the Agency are vested in the Board. Pursuant to the Dissolution Act, the Agency is a separate public body from the City and successor to the organizational status of the Former Agency, but without any legal authority to participate in redevelopment activities except to complete any work related to an approved enforceable obligation. The Agency is tasked with expeditiously winding down the affairs of the Former Agency pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, many Agency actions are subject to approval by the Oversight Board, as well as review by the DOF. The State

has strict laws regarding public meetings (known as the Ralph M. Brown Act) which generally make all Board and Oversight Board meetings open to the public in a similar manner as City Council meetings.

Previously, Section 33675 of the Redevelopment Law required the Former Agency to file not later than the first day of October of each year with the County Auditor a statement of indebtedness certified by the chief fiscal officer of the Former Agency for each redevelopment plan which provides for the allocation of taxes (i.e., the Redevelopment Plan). The statement of indebtedness was required to contain the date on which the bonds were delivered, the principal amount, term, purposes and interest rate of the bonds and the outstanding balance and amount due on the bonds. Similar information was required to be given for each loan, advance or indebtedness that the Former Agency had incurred or entered into which is payable from tax increment. Section 33675 also provided that payments of tax increment revenues from the County Auditor-Controller to the Former Agency could not exceed the amounts shown on the Former Agency's statement of indebtedness. The Dissolution Act eliminates this requirement and provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid thereunder, the Recognized Obligation Payment Schedule supersedes the statement of indebtedness previously required under the Redevelopment Law, and that, commencing on such date, the statement of indebtedness will no longer be prepared nor have any effect under the Redevelopment Law. See the caption "SECURITY FOR THE 2019 BONDS—Recognized Obligation Payment Schedule."

Status of Compliance with Dissolution Act

The Dissolution Act requires a due diligence review to determine the unobligated balances of each successor agency that are available for transfer to taxing entities. The due diligence review involves separate reviews of each successor agency's low and moderate income housing fund and of all other funds and accounts. Once a successor agency completes the due diligence review and any transfers to taxing entities, the DOF will issue a finding of completion that expands the authority of each successor agency in carrying out the wind down process. A finding of completion allows a successor agency to, among other things, retain real property assets of the dissolved redevelopment agency and utilize proceeds derived from bonds issued prior to January 1, 2011.

The Successor Agency completed the due diligence process and received its Finding of Completion on December 2, 2015.

After receiving a finding of completion, each successor agency is required to submit a Long Range Property Management Plan detailing what it intends to do with its inventory of properties. Successor agencies are not required to immediately dispose of their properties but are limited in terms of what they can do with the retained properties. Permissible uses include: sale of the property, use of the property to satisfy an enforceable obligation, retention of the property for future redevelopment, and retention of the property for governmental use. These plans must be filed by successor agencies within six months of receiving a finding of completion, and the DOF will review these plans as submitted on a rolling basis.

The DOF approved the Agency's Long Range Property Management Plan on December 17, 2015.

THE PROJECT AREA

Under the Law, a city or county that activated a redevelopment agency was required to adopt, by ordinance, a redevelopment plan for each redevelopment project to be undertaken by the redevelopment agency. A redevelopment agency could only undertake those activities within a redevelopment project specifically authorized in the adopted redevelopment plan. A redevelopment plan is a legal document, the content of which is largely prescribed in the Redevelopment Law, rather than a "plan" in the customary sense of the word. Each redevelopment plan originally included separate time and financial limitations applicable to the Project Area. SB 107, which became effective September 22, 2015, amended the Dissolution Act to provide that the time limits for receiving property tax revenues and the limitation on the amount of property

tax revenues that may be received by the Former Agency and the Agency set forth in the applicable redevelopment plan are not effective for purposes of paying the Agency's enforceable obligations. Accordingly, the projections set forth in this Official Statement and in the Fiscal Consultant's Report attached to this Official Statement as Appendix A were prepared without regard to the time and financial limitations set forth in the Redevelopment Plan for the Project Area. Also, the County Auditor-Controller will only deposit revenues into the RPTTF after a Project Area reaches a plan limit set forth in the redevelopment plan if and to the extent the Agency provides evidence that the revenues are needed to pay enforceable obligations. See "RISK FACTORS—Effect of Redevelopment Plan Limits." See below under this caption for additional information regarding the Project Area, including information on land use, property ownership, assessed valuation and Pledged Tax Revenues generated within the Project Area. See "SECURITY FOR THE 2019 BONDS—Pledged Tax Revenues."

General

The Project Area exists pursuant to the Redevelopment Plan (the "Redevelopment Plan"), which has been amended from time to time. A brief description of the location and land uses within the Project Area is set forth below. The Project Area was initially adopted by ordinance of the City Council and has been subject to periodic amendment from time to time pursuant to and in accordance with the Law.

The City Council of the City adopted the Redevelopment Plan for the Lemon Grove Downtown Redevelopment Project (the "Project Area") by Ordinance No. 132 on November 17, 1986. The Redevelopment Plan was subsequently amended by Ordinance No. 228 on December 20, 1994 for the purpose of establishing Redevelopment Plan limits required by AB 1290, and further amended by Ordinance No. 286 on November 17, 1998 to extend its eminent domain powers beyond the original scheduled expiration date. The Redevelopment Plan was further amended by Ordinance No. 359 on November 21, 2006 in accordance with Senate Bill 211 in order to eliminate the deadline on incurring indebtedness and in accordance with Senate Bill 1045 in order to extend by one year the duration of the Redevelopment Plan and the time frame to collect tax increment revenue.

The Project Area encompasses approximately 618 acres and is located between the northerly portion of the City's eastern and western boundaries and, with its southerly extension along most of the length of Lemon Grove Avenue and a small area on Skyline Drive, includes almost all of the City's land which is zoned for commercial and industrial use. Major roadways within the Lemon Grove Project are Federal Boulevard, Broadway, Lemon Grove Avenue, Lemon Grove Way and Grove Street.

Plan Limits

SB 107, which became effective September 22, 2015, amended the Dissolution Act to provide that the time limits for receiving property tax revenues and the limitation on the amount of property tax revenues that may be received by the Former Agency and the Agency set forth in the Redevelopment Plan are not effective for purposes of paying the Agency's enforceable obligations. Accordingly, the projections set forth in this Official Statement and in the Fiscal Consultant's Report attached to this Official Statement as Appendix A do not take into account the time and financial limitations set forth in the Redevelopment Plan for the Project Area. See the caption "PLEDGED TAX REVENUES—Projected Pledged Tax Revenues." The following table summarizes the time and financial limits set forth in the Redevelopment Plan:

REDEVELOPMENT PLAN LIMITATION DATES AND AMOUNTS

<i>Limitation</i>	<i>Date</i>
Final Date to Collect Tax Increment and Repay Debt:	November 1, 2037
Annual Limit on Tax Increment Revenues allocated to the Agency:	\$10,000,000*
Limit on Outstanding Bonded Indebtedness:	\$100,000,000*

* Adjusted annually by the Consumer Price Index.

Schedule of Historical Taxable Values and Incremental Revenues

As discussed under the caption “SECURITY FOR THE 2019 BONDS—Tax Increment Financing,” the 2019 Bonds are secured by Pledged Tax Revenues from the Project Area.

A breakdown of the reported taxable valuations and incremental assessed value in the Project Area for the past five fiscal years is set forth in the below table:

**Table 1
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Historical Taxable Values and Pledged Tax Revenues
Fiscal Years 2014-15 through 2018-19**

	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>2018-19</i>
Assessed Values					
Secured	\$397,816,496	\$407,470,660	\$423,884,935	\$455,847,514	\$495,435,799
Unsecured	<u>49,168,242</u>	<u>48,635,413</u>	<u>44,820,665</u>	<u>47,132,872</u>	<u>49,230,584</u>
Total Assessed Values	446,984,738	456,106,073	468,705,600	502,980,386	544,666,383
Base Year Values	<u>105,834,602</u>	<u>105,834,602</u>	<u>105,834,602</u>	<u>105,834,602</u>	<u>105,834,602</u>
Incremental Assessed Values	341,150,136	350,271,471	362,870,998	397,145,784	438,831,781
Gross Tax Revenue ⁽¹⁾	3,471,526	3,535,794	3,830,788	4,098,821	4,624,715
Less: County Admin Fees ⁽¹⁾	(54,227)	(52,199)	(76,972)	(54,616)	(58,634)
Less: Pass-Through Payments ⁽¹⁾	<u>(967,268)</u>	<u>(994,872)</u>	<u>(1,090,502)</u>	<u>(1,212,061)</u>	<u>(1,418,566)</u>
Pledged Tax Revenues	\$2,450,031	\$2,488,723	\$2,663,314	\$2,832,145	\$3,147,515

⁽¹⁾ Based on actual RPTTF amounts from the County.
Source: Urban Futures, Inc.

Largest Taxpayers

The top ten taxpayers for the Project Area in the current Fiscal Year are set forth in the below table.

Table 2
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Top Ten Taxpayers (Fiscal Year 2019-20)

<i>Name</i>	<i>2019-20 Secured Assessed Valuation</i>	<i>Primary Land Use</i>	<i>Percent of Secured Assessed Value⁽¹⁾</i>
1. Starboard Lemon Grove Dst.	\$ 19,975,680	Commercial	3.87%
2. Hd Development Ofmaryland Inc	19,692,372	Commercial	3.82
3. Celsius Lemon Grove LLC	17,945,268	Multi-Family Residential	3.48
4. A B S Ca-O LLC	14,350,783	Commercial	2.78
5. Terrace Gardens LLC	13,789,846	Multi-Family Residential	2.67
6. Kobusch William O Revocable Trust ⁽²⁾	11,656,950	Commercial	2.26
7. Miller Family Real Estate LLC	10,200,000	Commercial	1.98
8. Lemon Grove Holdings LC	10,158,737	Commercial	1.97
9. Hidalgo Realty LLC Et A	9,714,992	Commercial	1.88
10. Taco Aide LLC	<u>9,550,871</u>	Commercial	<u>1.85</u>
Total	\$ 137,035,499		26.55%

⁽¹⁾ Based on Fiscal Year 2019-20 secured assessed valuation of \$516,130,240.

⁽²⁾ Currently has assessment appeal on file.

Source: Urban Futures, Inc., with information from the San Diego County 2019-20 Secured Property Tax Roll.

Land Use

The following table illustrates the land use of property in the Project Area.

Table 3
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Land Use Statistics (Fiscal Year 2019-20)

<i>Land Use</i>	<i>No. of Parcels</i>	<i>Secured Assessed Valuation</i>	<i>Percent of Secured Assessed Valuation⁽¹⁾</i>
Commercial	270	\$ 285,221,506	55.26%
Multi-Family Residential	82	90,739,467	17.58
Single Family Residential	320	60,107,494	11.65
Industrial	83	58,972,289	11.43
Vacant Commercial	41	10,281,562	1.99
Governmental/Institutional/Other	67	5,039,848	0.98
Vacant Industrial	10	3,073,706	0.60
Vacant Residential	16	2,273,270	0.44
Recreational	6	421,097	0.08
Vacant Governmental/Institutional/Other	<u>2</u>	<u>0</u>	<u>0.00</u>
Total All Secured	897	\$ 516,130,240	100.00%

⁽¹⁾ Based on Fiscal Year 2019-20 secured assessed valuation of \$516,130,240.

Source: Urban Futures, Inc. with information from the San Diego County 2019-20 Secured Property Tax Roll.

Assessment Appeals

There are two basic types of assessment appeals provided for under California law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the County Assessor following a change in ownership or completion of new construction. If the base year value assigned by the County Assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs. The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value.

Property taxable values determined by the County Assessor may be subject to an appeal by the property owner. Assessment appeals are annually filed with the County Assessment Appeals Board for a hearing and resolution. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the property owner. A property owner can file for a regular assessment appeal with the County between July 2 and November 30. Revenue and Taxation Code Section 1604 allows up to two years for an assessment appeal to be decided. One of the top ten taxpayers within the Project Area has filed assessment appeals that are currently pending. Additional appeals to assessed values in the Project Area may be filed from time to time in the future. The Agency cannot predict the extent of these appeals or their likelihood of success.

The Fiscal Consultant researched the status of assessment appeals filed by property owners in the Project Area based upon the latest information available from the County Appeals Board database from July 1, 2015 through October 7, 2019. The Fiscal Consultant's estimates are based upon the historical averages of successful appeals and amounts of value reductions. Actual appeals, reductions and refunds may vary from historical averages. The Fiscal Consultant's estimated reductions in values are not reflected in its projections of Pledged Tax Revenues, as the results of pending appeals are uncertain.

The following table, showing appeal data for the period of July 1, 2015 through October 7, 2019, summarizes the potential losses from pending assessment appeals within the Project Area.

Table 4
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Assessed Valuation Appeals (July 1, 2015 to October 7, 2019)

<i>No. of Appeals Filed</i>	<i>No. of Successful Appeals</i>	<i>Assessed Value of Property</i>	<i>Owner's Opinion of Value</i>	<i>Total Requested Assessed Value Reduction</i>	<i>Reduction Allowed by Board</i>	<i>Allowed Reductions as % of Requested</i>
33	9	\$133,543,367	\$69,243,018	\$64,300,349	\$3,983,363	6.19%

Outstanding Assessment Appeals

<i>Roll Year Appealed</i>	<i>No. of Appeals Filed</i>	<i>Assessed Value of Property</i>	<i>Owner's Opinion of Value</i>	<i>Potential Loss of Assessed Value</i>	<i>Historical Success Rate</i>	<i>Est. Reduction (based on historical success)</i>
2017	1	\$ 1,952,202	\$ 976,101	\$ 976,101	6.19%	\$ 60,469
2018	8	24,917,711	11,636,262	13,281,449	6.19	822,777
2019	<u>1</u>	<u>2,000,000</u>	<u>1,200,000</u>	<u>800,000</u>	6.19	<u>49,559</u>
Total	10	\$ 28,869,913	\$ 13,812,363	\$ 15,057,550		\$ 932,805

Source: Urban Futures, Inc. with data obtained from San Diego County Assessor/Recorder/Clerk.

New Development

According to the Agency, several new developments are in progress, or are anticipated to begin in the near future, within the Project Area. Such new developments are expected to increase assessed valuations within Project Area. However, the projections of Pledged Tax Revenues in the Fiscal Consultant Report and this Official Statement do not reflect any increases in assessed valuations relating to development within the Project Area that is in progress or anticipated to begin in the near future.

PLEGGED TAX REVENUES

Pledged Tax Revenues are to be deposited in the Redevelopment Obligation Retirement Fund, and thereafter and after transfers have been made by the Agency to the Debt Service Fund, administered by the Trustee and applied to the payment of the principal of and interest on the Bonds.

Projected Pledged Tax Revenues

The Agency retained the Fiscal Consultant to provide projections of taxable valuation and Pledged Tax Revenues from developments in the Project Area. The Agency believes that the assumptions (set forth in the footnotes below and in Appendix A) upon which the projections are based are reasonable; however, some assumptions may not materialize and unanticipated events and circumstances may occur. See the caption "RISK FACTORS." Therefore, the actual Pledged Tax Revenues received during the forecast period may vary from the projections and the variations may be material. A summary of the projected total taxable valuation and Pledged Tax Revenues for the Project Area is set forth in the following tables. The projections set forth in Table 5 assume no growth in assessed value. The projections set forth in Table 6 assume annual assessed value growth at 2% in Fiscal Year 2020-21 and thereafter. The projections set forth in Table 5 and Table 6 do not take into account the effect of any assessment appeals. See the caption "THE PROJECT AREA—Assessment Appeals" for more information on the potential effect of such assessment appeals.

SB 107, which became effective September 22, 2015, amended the Dissolution Act to provide that the time limits for receiving property tax revenues and the limitation on the amount of property tax revenues that may be received by the Former Agency and the Agency set forth in the Redevelopment Plan are not effective for purposes of paying the Agency's enforceable obligations. Accordingly, the projections set forth in this Official Statement and in the Fiscal Consultant's Report attached to this Official Statement as Appendix A do not take into account the time and financial limitations set forth in the Redevelopment Plan for the Project Area.

A summary of the projected total taxable valuation and Pledged Tax Revenues for the Project Area assuming 0% annual growth is set forth in the below table:

Table 5
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Projected Pledged Tax Revenues—Assumes No Value Growth

<i>Fiscal Year Ending June 30</i>	<i>Assessed Valuation⁽¹⁾</i>	<i>Incremental Value Over Base⁽²⁾</i>	<i>Gross Tax Increment Revenue⁽³⁾</i>	<i>Pass-Through Amounts⁽⁴⁾</i>	<i>County Admin. Charges⁽⁵⁾</i>	<i>Pledged Tax Revenues⁽⁶⁾</i>
2020	\$569,405,146	\$463,570,544	\$4,635,705	\$(1,443,508)	\$(58,873)	\$3,133,324
2021	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2022	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2023	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2024	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2025	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2026	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2027	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2028	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2029	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2030	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2031	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2032	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2033	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2034	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2035	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2036	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324
2037	569,405,146	463,570,544	4,635,705	(1,443,508)	(58,873)	3,133,324

⁽¹⁾ Based on Fiscal Year 2019-20 taxable value. No annual growth assumed after Fiscal Year 2019-20. Real property consists of land and improvements.
⁽²⁾ Represents reported and projected incremental values over a Base Year value of \$105,834,602 (reported by the County in Fiscal Year 1987-88).
⁽³⁾ Based on the general 1.00% tax rate. See the caption “SECURITY FOR THE 2019 BONDS—General.”
⁽⁴⁾ Includes payments pursuant to Pass-Through Agreements, 33676 Amounts and Statutory Pass-Through Amounts. See the caption “SECURITY FOR THE 2019 BONDS—Pass-Through Agreements,” “—Statutory Pass-Through Amounts” and “—Section 33676 Election.”
⁽⁵⁾ County Administrative Charges include charges under SB 2557 and AB X1 26. The Fiscal Consultant estimates the charges at 1.27% of Gross Tax Increment Revenues.
⁽⁶⁾ Pledged Tax Revenues available for debt service payments on the Bonds.
Source: Urban Futures, Inc.

A summary of the projected total taxable valuation and Pledged Tax Revenues for the Project Area assuming 2% annual growth is set forth in the below table:

Table 6
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Projected Pledged Tax Revenues—Assumes Value Growth

<i>Fiscal Year Ending June 30</i>	<i>Assessed Valuation⁽¹⁾</i>	<i>Incremental Value Over Base⁽²⁾</i>	<i>Gross Tax Increment Revenue⁽³⁾</i>	<i>Pass-Through Amounts⁽⁴⁾</i>	<i>County Admin. Charges⁽⁵⁾</i>	<i>Pledged Tax Revenues⁽⁶⁾</i>
2020	\$569,405,146	\$463,570,544	\$4,635,705	\$(1,443,508)	\$(58,873)	\$3,133,324
2021	580,793,249	474,958,647	4,749,586	(1,475,265)	(60,320)	3,214,002
2022	592,409,114	486,574,512	4,865,745	(1,507,721)	(61,795)	3,296,229
2023	604,257,296	498,422,694	4,984,227	(1,540,891)	(63,300)	3,380,036
2024	616,342,442	510,507,840	5,105,078	(1,574,790)	(64,834)	3,465,453
2025	628,669,291	522,834,689	5,228,347	(1,609,436)	(66,400)	3,552,511
2026	641,242,677	535,408,075	5,354,081	(1,644,843)	(67,997)	3,641,240
2027	654,067,530	548,232,928	5,482,329	(1,681,030)	(69,626)	3,731,674
2028	667,148,881	561,314,279	5,613,143	(1,718,013)	(71,287)	3,823,843
2029	680,491,859	574,657,257	5,746,573	(1,755,809)	(72,981)	3,917,782
2030	694,101,696	588,267,094	5,882,671	(1,794,437)	(74,710)	4,013,524
2031	707,983,730	602,149,128	6,021,491	(1,833,914)	(76,473)	4,111,104
2032	722,143,404	616,308,802	6,163,088	(1,874,260)	(78,271)	4,210,556
2033	736,586,272	630,751,670	6,307,517	(1,915,494)	(80,105)	4,311,917
2034	751,317,998	645,483,396	6,454,834	(1,957,635)	(81,976)	4,415,222
2035	766,344,358	660,509,756	6,605,098	(2,000,703)	(83,885)	4,520,510
2036	781,671,245	675,836,643	6,758,366	(2,044,719)	(85,831)	4,627,817
2037	797,304,670	691,470,068	6,914,701	(2,089,702)	(87,817)	4,737,182

⁽¹⁾ Based on Fiscal Year 2019-20 taxable value. Projected taxable values have been increased by 2% each year thereafter. Real property consists of land and improvements.
⁽²⁾ Represents reported and projected incremental values over a Base Year value of \$105,834,602 (reported by the County in Fiscal Year 1987-88).
⁽³⁾ Based on the general 1.00% tax rate. See the caption “SECURITY FOR THE 2019 BONDS—General.”
⁽⁴⁾ Includes payments pursuant to Pass-Through Agreements, 33676 Amounts and Statutory Pass-Through Amounts. See the caption “SECURITY FOR THE 2019 BONDS—Pass-Through Agreements,” “—Statutory Pass-Through Amounts” and “—Section 33676 Election.”
⁽⁵⁾ County Administrative Charges include charges under SB 2557 and AB X1 26. The Fiscal Consultant estimates the charges at 1.27% of Gross Tax Increment Revenues.
⁽⁶⁾ Pledged Tax Revenues available for debt service payments on the Bonds.
Source: Urban Futures, Inc.

Debt Service Coverage

Set forth below is the estimated debt service coverage for the 2019 Bonds and 2014 Bonds using Fiscal Year 2019-20 Pledged Tax Revenues assuming 0% value growth in tax increment revenues.

Table 7
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Estimated Debt Service Coverage—Assumes No Value Growth

<i>Year Ending June 30</i>	<i>Pledged Tax Revenues</i>	<i>2014 Bonds⁽¹⁾</i>	<i>2019A Bonds Debt Service⁽¹⁾</i>	<i>2019B Bonds Debt Service⁽¹⁾</i>	<i>Total Bonds Debt Service⁽¹⁾</i>	<i>Total Bonds Debt Service Coverage</i>
2020	\$3,133,324	\$333,086	\$503,857	\$665,366	\$1,502,309	2.09x
2021	3,133,324	334,186	505,800	666,786	1,506,773	2.08
2022	3,133,324	329,799	506,000	670,657	1,506,456	2.08
2023	3,133,324	335,411	500,600	663,993	1,500,005	2.09
2024	3,133,324	323,161	509,800	681,996	1,514,957	2.07
2025	3,133,324	326,161	508,000	679,069	1,513,231	2.07
2026	3,133,324	333,661	500,600	680,411	1,514,672	2.07
2027	3,133,324	328,093	502,800	681,057	1,511,950	2.07
2028	3,133,324	327,318	499,200	676,055	1,502,573	2.09
2029	3,133,324	986,113	--	680,566	1,666,679	1.88
2030	3,133,324	994,800	--	669,258	1,664,058	1.88
2031	3,133,324	994,800	--	676,549	1,671,349	1.87
2032	3,133,324	553,400	--	1,138,115	1,691,515	1.85
2033	3,133,324	373,200	--	1,317,433	1,690,633	1.85
2034	3,133,324	374,400	--	1,319,126	1,693,526	1.85
2035	3,133,324	--	--	1,719,366	1,719,366	1.82
2036	3,133,324	--	--	1,715,223	1,715,223	1.83
2037	3,133,324	--	--	1,723,960	1,723,960	1.82

⁽¹⁾ Reflects annual debt service through August 1.
Source: Urban Futures, Inc.; Underwriter.

Set forth below is the estimated debt service coverage for the 2019 Bonds and 2014 Bonds using Fiscal Year 2019-20 Pledged Tax Revenues assuming approximately 2% growth in tax increment revenues thereafter.

Table 8
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Estimated Debt Service Coverage—Assumes Value Growth

<i>Year Ending June 30</i>	<i>Pledged Tax Revenues</i>	<i>2014 Bonds⁽¹⁾</i>	<i>2019A Bonds Debt Service⁽¹⁾</i>	<i>2019B Bonds Debt Service⁽¹⁾</i>	<i>Total Bonds Debt Service⁽¹⁾</i>	<i>Total Bonds Debt Service Coverage</i>
2020	\$3,133,324	\$333,086	\$503,857	\$665,366	\$1,502,309	2.09x
2021	3,214,002	334,186	505,800	666,786	1,506,773	2.13
2022	3,296,229	329,799	506,000	670,657	1,506,456	2.19
2023	3,380,036	335,411	500,600	663,993	1,500,005	2.25
2024	3,465,453	323,161	509,800	681,996	1,514,957	2.29
2025	3,552,511	326,161	508,000	679,069	1,513,231	2.35
2026	3,641,240	333,661	500,600	680,411	1,514,672	2.40
2027	3,731,674	328,093	502,800	681,057	1,511,950	2.47
2028	3,823,843	327,318	499,200	676,055	1,502,573	2.54
2029	3,917,782	986,113	--	680,566	1,666,679	2.35
2030	4,013,524	994,800	--	669,258	1,664,058	2.41
2031	4,111,104	994,800	--	676,549	1,671,349	2.46
2032	4,210,556	553,400	--	1,138,115	1,691,515	2.49
2033	4,311,917	373,200	--	1,317,433	1,690,633	2.55
2034	4,415,222	374,400	--	1,319,126	1,693,526	2.61
2035	4,520,510	--	--	1,719,366	1,719,366	2.63
2036	4,627,817	--	--	1,715,223	1,715,223	2.70
2037	4,737,182	--	--	1,723,960	1,723,960	2.75

⁽¹⁾ Reflects annual debt service through August 1.
Source: Urban Futures, Inc.; Underwriter

Projected RPTTF Distributions

The estimated distributions of moneys from the Agency’s Redevelopment Property Tax Trust Fund for June 1, 2020, January 2, 2021 and June 1, 2021 are set forth in Table 9 below.

Table 9
SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Estimated RPTTF Distributions
(June 1, 2020 to June 1, 2021)

<i>Fiscal Year</i>	<i>June 1, 2020</i>	<i>January 2, 2021</i>	<i>June 1, 2021</i>
Gross Tax Revenues (Based on Fiscal Year)			
Tax Increment	\$ 2,688,708	\$ 1,994,826	\$ 2,754,760
Unitary Revenue	-	-	-
Total Gross Tax Revenues	<u>2,688,708</u>	<u>1,994,826</u>	<u>2,754,760</u>
Deductions			
Property Tax Administrative Fee	28,259	31,366	28,954
Pass-Through Agreements	<u>822,800</u>	<u>634,364</u>	<u>840,901</u>
Total Deductions	851,059	665,730	869,855
Tax Revenues Available for Debt Service	1,837,649	1,329,096	1,884,905
2014 Bonds	231,543	99,593	234,593
2019 Bonds	1,104,100	266,293	906,293
Remaining for Other Obligations and Taxing Entities	\$ 502,006	\$ 963,210	\$ 744,019

Source: Urban Futures, Inc.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the 2019 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2019 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Reduction in Taxable Value

Pledged Tax Revenues allocated to the Redevelopment Property Tax Trust Fund are determined by the amount of incremental taxable value in the Project Area and the current rate or rates at which property in the Project Area is taxed. The reduction of taxable values of property in the Project Area caused by economic factors beyond the Agency’s control, such as relocation out of the Project Area by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation or the complete or partial destruction of such property caused by, among other eventualities, earthquake or other natural disaster, could cause a reduction in the Pledged Tax Revenues that provide for the repayment of and secure the 2019 Bonds. Such reduction in Pledged Tax Revenues could have an adverse effect on the Agency’s ability to make timely payments of principal of and interest on the 2019 Bonds.

As described in greater detail under the caption “PROPERTY TAXATION IN CALIFORNIA—Article XIII A of the State Constitution,” Article XIII A provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction

or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the 2019 Bonds could reduce Pledged Tax Revenues securing the 2019 Bonds.

In addition to the other limitations on and required application under the Dissolution Act of Pledged Tax Revenues on deposit in the Redevelopment Property Tax Trust Fund, as described in this Official Statement, the State electorate or Legislature could adopt a constitutional or legislative property tax reduction with the effect of reducing Pledged Tax Revenues allocated to the Redevelopment Property Tax Trust Fund and available to the Agency. Although the federal and State Constitutions include clauses generally prohibiting the Legislature's impairment of contracts, there are also recognized exceptions to these prohibitions. There is no assurance that the State electorate or Legislature will not at some future time approve additional limitations that could reduce the Pledged Tax Revenues and adversely affect the source of repayment and security of the 2019 Bonds.

Concentration of Ownership

The ten largest property taxpayers in the Project Area, based upon the Fiscal Year 2019-20 locally assessed tax roll reported by the County Assessor, owned approximately 26.55% of the total Project Area secured assessed value. See the Fiscal Consultant's Report attached to this Official Statement as Appendix A. Concentration of ownership presents a risk in that if one or more of the largest property owners were to default on their taxes, or were to successfully appeal the tax assessments on property within the Project Area, a substantial decline in Pledged Tax Revenues could result. See the caption "THE PROJECT AREA—Largest Taxpayers" for more information about these ten largest property taxpayers and see "THE PROJECT AREA—Assessment Appeals" for information as to pending appeals of tax assessments.

Risks to Real Estate Market

The Agency's ability to make payments on the 2019 Bonds is dependent upon the economic strength of the Project Area. The general economy of the Project Area is subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs, the supply of or demand for competitive properties in such area, the market value of property in the event of sale or foreclosure and other similar factors. Furthermore, real estate development within the Project Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development, changes in real estate tax rates and other operating expenses, zoning laws and laws relating to threatened and endangered species and hazardous materials and fiscal policies, as well as natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses. In addition, if there is a decline in the general economy of the Project Area, the owners of property within the Project Area may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of Pledged Tax Revenues by the Agency from the Project Area.

Because assessed values do not necessarily indicate fair market values, the declines in fair market values in recent years may have been even greater than the declines in assessed valuations, although it is also possible that market values could be greater than assessed valuations at any given time. No assurance can be given that the individual parcel owners will pay property taxes in the future or that they will be able to pay such taxes on a timely basis. See the caption "—Bankruptcy and Foreclosure" for a discussion of certain limitations on the City's ability to pursue judicial proceedings with respect to delinquent parcels.

Reduction in Inflation Rate

As described in greater detail above, Article XIII A of the State Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the rate of inflation, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. The Agency is unable to predict if any adjustments to the full cash value of real property within the Project Area, whether an increase or a reduction, will be realized in the future. See “PROPERTY TAXATION IN CALIFORNIA—Article XIII A of the State Constitution.”

Effect of Redevelopment Plan Limits

Prior to the enactment of SB 107, the Agency’s Project Area were subject to various limitations on the amount of and time within which tax increment could be received by the Agency. Such limitations are referred to as “Plan Limits.” Revenues in excess of such plan limits are not deposited into the RPTTF and are not reflected in the projections of Pledged Tax Revenues set forth in Tables 5 and 6 and the Fiscal Consultant’s Report attached as Appendix A. The County Auditor-Controller will only deposit revenues into the RPTTF for a project area that reaches its Plan Limits in the future if the Agency demonstrates that such revenues are needed to pay the Agency’s enforceable obligations. The Agency does not expect this to affect the availability of Pledged Tax Revenues to pay debt service on the 2019 Bonds when due. Certain of the component areas within the Project Area were subject to plan limitations, though due to the passage of SB 107, such plan limitations are no longer in effect. See the caption “THE PROJECT AREA—Plan Limits.”

Levy and Collection of Taxes

The Agency has no independent power to levy or collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Pledged Tax Revenues, and accordingly, could have an adverse impact on the security for and the ability of the Agency to repay the 2019 Bonds.

Likewise, delinquencies in the payment of property taxes by the owners of land in the Project Area, and the impact of bankruptcy proceedings on the ability of taxing agencies to collect property taxes, could have an adverse effect on the Agency’s ability to make timely payments on the 2019 Bonds. As discussed under the caption “PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Delinquencies*,” the County has adopted a Teeter Plan. Accordingly, the County Auditor-Controller distributes 100% of tax increment revenues allocated to each redevelopment successor agency in the County without regard to delinquencies in the payment of property taxes. As a result of this allocation method, the Agency receives no adjustments for redemption payments on delinquent collections. The Agency does receive supplemental taxes and refunds, if any, are deducted from amounts available for deposit to the Redevelopment Property Tax Trust Fund. There can be no assurance that the County Auditor-Controller will not change its policies with respect to delinquencies in property tax payments in the future.

State Budget Issues

General. AB X1 26 and AB 1484 were enacted by the State Legislature and Governor as trailer bills necessary to implement provisions of the State’s budget acts for its fiscal years 2011-12 and 2012-13, respectively, and constituted efforts to address structural deficits in the State general fund budget. In general terms, these bills implemented a framework to transfer cash assets which were previously held by redevelopment agencies to cities, counties and special districts to fund core public services, with assets transferred to schools offsetting State general fund costs (then projected savings of \$1.5 billion). There can be no assurance that additional legislation will not be enacted in the future to additionally implement provisions

relating to the State budget or otherwise that may affect successor agencies or tax increment revenues, including RPTTF Revenues.

SB 107, which made extensive amendments to the Dissolution Act, was enacted following the adoption of the State fiscal year 2015-16 budget, after having initially been presented as AB 113, a trailer bill to the State fiscal year 2015-16 budget. SB 107 changed the process for submitting Recognized Obligation Payment Schedules from a six-month to an annual process, authorized successor agencies to submit and obtain DOF approval of a Last and Final ROPS to govern all remaining payment obligations of successor agencies, altered the provisions governing the distribution of Redevelopment Property Tax Trust Fund moneys attributable to pension and State Water Project tax rate overrides and eliminated the impact of financial and time limitations in redevelopment plans for purposes of paying enforceable obligations, among other changes to the Dissolution Act. These statutory amendments impact the manner in which successor agencies claim Redevelopment Property Tax Trust Fund moneys for enforceable obligations and, for some successor agencies, impact the amount of Redevelopment Property Tax Trust Fund moneys that will be available for payment of a successor agency's enforceable obligations.

The following information concerning the State's budget for State fiscal year 2018-19 and State fiscal year 2019-20 has been obtained from publicly available information that the Agency believes to be reliable; however, the City and the Underwriter take no responsibility for the accuracy or completeness thereof and have not independently verified such information. Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the DOF, <http://www.dof.ca.gov>, under the heading "California Budget." An impartial analysis of the budget is posted by the Legislative Analyst's Office (the "LAO") at <http://www.lao.ca.gov>. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, <http://www.treasurer.ca.gov>. The information referred to is prepared by the respective State agency maintaining each website and not by the City, the Agency or the Underwriter, and the City, the Agency and the Underwriter take no responsibility for the continued accuracy of these Internet addresses or for the accuracy, completeness or timeliness of information posted thereon, and such information is not incorporated herein by these references.

2019-20 Budget. On June 27, 2019 the Governor signed into law the State budget for fiscal year 2019-20 (the "2019-20 Budget"). The following information is drawn from the State Department of Finance's summary of the 2019-20 Budget.

For fiscal year 2018-19, the 2019-20 Budget projects total general fund revenues and transfers of \$138 billion and total expenditures of \$142.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$20.7 billion, including \$5.4 billion in the traditional general fund reserve, \$14.4 billion in the BSA and \$900 million in the Safety Net Reserve Fund for the CalWORKs and Medi-Cal programs. For fiscal year 2019-20, the 2019-20 Budget projects total general fund revenues and transfers of \$143.8 billion and authorizes expenditures of \$147.8 billion. The State is projected to end the 2019-20 fiscal year with total available general fund reserves of \$18.8 billion, including \$1.4 billion in the traditional general fund reserve, \$16.5 billion in the BSA and \$900 million in the Safety Net Reserve Fund.

For additional information regarding the 2019-20 Budget, see the DOF's website at www.dof.ca.gov and the LAO's website at www.lao.ca.gov.

Certain litigation which challenges some of the terms of the Dissolution Act is currently ongoing (as described under the caption "—Challenges to Dissolution Act"), and it is anticipated that there will be additional future legislation in this area. The Agency cannot predict what measures may be proposed or implemented for the current fiscal year or in the future.

None of the websites or webpages that are referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. Neither the Agency nor the Underwriter makes any representation whatsoever as to the accuracy or completeness of any of the information on such websites.

There can be no assurance that additional legislation will not be enacted in the future to implement provisions relating to the State budget or otherwise that may affect successor agencies or tax increment revenues.

Recognized Obligation Payment Schedule

The Dissolution Act provides that, commencing on the date that the first Recognized Obligation Payment Schedule is valid thereunder, only those obligations listed in the Recognized Obligation Payment Schedule may be paid by the Agency from the funds specified in the Recognized Obligation Payment Schedule. Before each February 1, with respect to the following fiscal year, the Dissolution Act requires successor agencies to prepare and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as described under the caption "SECURITY FOR THE 2019 BONDS—Recognized Obligation Payment Schedule") of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Pledged Tax Revenues will not be distributed from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller to the Agency's Redevelopment Obligation Retirement Fund without a duly approved and effective Recognized Obligation Payment Schedule obtained in sufficient time prior to the June 1 property tax distribution date. See the caption "SECURITY FOR THE 2019 BONDS—Recognized Obligation Payment Schedule" and "PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Recognized Obligation Payment Schedule.*" In the event that the Agency fails to file a Recognized Obligation Payment Schedule with respect to a fiscal year, the availability of Pledged Tax Revenues to the Agency could be adversely affected for such period.

In the event that a successor agency fails to submit to the DOF an oversight board-approved Recognized Obligation Payment Schedule complying with the provisions of the Dissolution Act within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations, the DOF may determine if any amount should be withheld by the applicable county auditor-controller for payments for enforceable obligations from distribution to taxing entities pursuant to clause (iv) below, pending approval of a Recognized Obligation Payment Schedule. Upon notice provided by the DOF to the county auditor-controller of an amount to be withheld from allocations to taxing entities, the county auditor-controller must distribute to taxing entities any moneys in the Redevelopment Property Tax Trust Fund in excess of the withholding amount set forth in the notice, and the county auditor-controller must distribute withheld funds to the successor agency only in accordance with a Recognized Obligation Payment Schedule when and as approved by the DOF.

Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, the county auditor-controller is to distribute funds for each six-month period in the following order specified in Section 34183 of the Dissolution Act:

(i) First, to each local agency and school entity, to the extent applicable, amounts required for pass-through payments that such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including pursuant to the Statutory Pass-Through Amounts. Pension or State Water Project override revenues that are not pledged to or not needed for debt service on Agency debt will be allocated and paid to the entity that levies the override;

(ii) Second, to the Agency for payments listed in its Recognized Obligation Payment Schedule;

(iii) Third, to the Agency for the administrative cost allowance, as defined in the Dissolution Act; and

(iv) Fourth, the remainder is distributed to the taxing entities in an amount proportionate to such taxing entity's share of property tax revenues in the tax rate area in such fiscal year (without adjustment for pass-through obligations).

If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations and the DOF does not provide a notice to the County Auditor-Controller to withhold funds from distribution to taxing entities, amounts in the Redevelopment Property Tax Trust Fund for such fiscal year would be distributed to taxing entities pursuant to clause (iv) above.

Additionally, in the event Redevelopment Property Tax Trust Fund moneys are insufficient to pay all pass-through amounts and enforceable obligations, the County Auditor-Controller will disburse moneys to taxing agencies for pass-through payments prior to disbursing any moneys to the Agency for debt service on the 2019 Bonds or other enforceable obligations, unless the Agency has complied with the procedures set forth in Section 34177.5(c) of the Dissolution Act to subordinate such pass-through payments to the 2019 Bonds. The Agency has taken the required actions to subordinate the Statutory Pass-Through Amounts to the 2019 Bonds and therefore the Statutory Pass-Through Amounts will be available to pay debt service on the 2019 Bonds, subject to compliance with the procedures set forth in the Dissolution Act for accessing such revenues. See the caption "SECURITY FOR THE 2019 BONDS—Tax Increment Financing—Tax Sharing," and "—Statutory Pass-Through Amounts."

The Agency covenants in the Indenture to comply with all of the requirements of the Dissolution Act. The Agency covenants to take all actions required under the Dissolution Act to prepare and file Recognized Obligation Payment Schedules so as to enable the San Diego County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund all amounts as shall be required to enable the Agency to pay timely principal of, and interest on, the Bonds and all outstanding Parity Bonds coming due in such Bond Year.

Without limiting the generality of the foregoing paragraph, the Agency will take all actions required under the Dissolution Act to include on the Recognized Obligation Payment Schedules for each Semiannual Period all payments to the Trustee to satisfy the requirements of the Indenture and the 2014 Indenture, including any amounts required to replenish the Reserve Account established for the 2019 Bonds and Parity Bonds. In addition, the Agency will take all actions required under the Dissolution Act to include scheduled debt service on the 2019 Bonds and Parity Bonds, as well as any amount required to replenish the respective reserve accounts established for the 2019 Bonds and Parity Bonds and amounts due to any Insurer under the Indenture or under an insurance or surety bond agreement, in Recognized Obligation Payment Schedules for each Semiannual Period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Redevelopment Obligation Retirement Fund on each January 2 and June 1, the amounts required to be transferred to the Trustee to pay principal of and interest on the 2019 Bonds and Parity Bonds coming due in the calendar year. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and the California Department of Finance, to the extent required, the amounts to be held by the Agency as a reserve until the next Semiannual Period that are required to provide for the payment of principal of and interest on the Bonds and Parity Bonds. Further, to the extent that any subordinated pass-through amounts are necessary to pay debt service on the 2019 Bonds and Parity Bonds, the Agency covenants to comply with the requirements of Health & Safety Code Section 34183(b) to ensure that the subordinated pass-through amounts are paid to the Agency.

With regard to each Semiannual Period ending on June 30 of a calendar year, the Agency shall include in the Recognized Obligation Payment Schedule for such Semiannual Period an amount which is at least equal to the sum of (a) the full amount of principal and interest on the 2019 Bonds and Parity Bonds coming due and payable on the succeeding February 1 and August 1.

In addition, the Agency shall place on the applicable Recognized Obligation Payment Schedule for approval by the Oversight Board and DOF, to the extent necessary, the amounts to be held by the Agency as a reserve until the following half of the calendar year, as contemplated by paragraph (1)(A) of subdivision (d) of section 34171 of the Dissolution Act and any amount required to be deposited in the Reserve Account in order to maintain in the Reserve Account the amount at least equal to the Reserve Requirement. See Appendix B.

The Dissolution Act also imposes certain penalties in the event that the Agency does not timely submit a Recognized Obligation Payment Schedule for each fiscal year. Specifically, a Recognized Obligation Payment Schedule must be submitted by the Agency, after approval by the Oversight Board, to the County Administrative Officer, the County Auditor-Controller, the DOF and the State Controller by February 1 in each year with respect to the following Fiscal Year. If the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule by such deadline, the City will be subject to a civil penalty equal to \$10,000 per day for every day that the schedule is not submitted. Additionally, the Agency's administrative cost allowance will be reduced by 25% for any fiscal year for which the Agency does not submit an Oversight Board-approved Recognized Obligation Payment Schedule within 10 days of the February 1 deadline. If the Agency fails to submit a Recognized Obligation Payment Schedule by the February 1 deadline, any creditor of the Agency or DOF or any affected taxing entity shall have standing to, and may request a writ of mandate to, require the Agency to immediately perform this duty.

The Agency has not filed any Oversight Board-approved Recognized Obligation Payment Schedules after the statutory deadlines. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications thereof on the 2019 Bonds, see the caption "SECURITY FOR THE 2019 BONDS—Recognized Obligation Payment Schedule."

Last and Final Recognized Obligation Payment Schedule

SB 107 amended the Dissolution Act to permit certain successor agencies with limited remaining obligations to submit a Last and Final ROPS for approval by the oversight board and DOF. The Last and Final ROPS must list the remaining enforceable obligations of the successor agency, including the total outstanding obligation amount and a schedule of remaining payments for each enforceable obligation. The Last and Final ROPS shall also establish the maximum amount of Redevelopment Property Tax Trust Funds to be distributed to the successor agency for each remaining fiscal year until all obligations have been fully paid.

Any revenues, interest, and earnings of the successor agency, including proceeds from the disposition of real property, that are not authorized for use pursuant to the approved Last and Final ROPS shall be remitted to the county auditor-controller for distribution to the affected taxing entities. A successor agency shall not expend more than the amount approved for each enforceable obligation listed on the approved Last and Final ROPS and once the successor agency has received Redevelopment Property Tax Trust Fund moneys equal to the amount of the total outstanding obligations approved in the Last and Final ROPS, the county auditor-controller will not allocate further Redevelopment Property Tax Trust Fund moneys to the successor agency.

Successor agencies may only amend an approved Last and Final ROPS twice. If the Agency prepares and obtains DOF approval of a Last and Final ROPS and subsequently amends the Last and Final ROPS two times, the Agency may be unable to make unexpected or unscheduled reserve deposits or payments due to the Insurers of Bonds or other Parity Debt.

See the caption “SECURITY FOR THE 2019 BONDS—Last and Final Recognized Obligation Payment Schedule” for a discussion of the requirements for a Last and Final ROPS and the mechanics for allocation of Redevelopment Property Tax Trust Fund moneys pursuant to an approved Last and Final ROPS.

The Agency has no current plans to file a Last and Final ROPS. Further, the Agency has covenanted in the Indenture not to submit to the Oversight Board or the California Department of Finance a request for the final amendment permitted for its Last and Final ROPS without the prior written consent of the 2019 Insurer unless all amounts that could become due to the 2019 Insurer are included as a line item on the Last and Final ROPS, as amended.

Parity and Subordinate Debt

The Indenture permits the issuance by the Agency of certain indebtedness which may have a lien upon the pledged Tax Revenues on parity with the lien of the 2019 Bonds; however, under the Dissolution Act, such additional indebtedness may be issued for refunding purposes only. The Agency has covenanted not to issue any additional obligations with a lien on former tax increment revenues senior to the lien of the 2019 Bonds. See “SECURITY FOR THE 2019 BONDS—Limitations on Additional Indebtedness” for a description of the conditions precedent to issuance of such additional obligations. The Indenture does not limit the issuance of tax allocation bonds or other indebtedness secured by a pledge of tax increment revenues subordinate to the pledge of Pledged Tax Revenues securing the 2019 Bonds.

Challenges to Dissolution Act

Several successor agencies, cities and other entities have filed judicial actions challenging the legality of various provisions of the Dissolution Act. One such challenge is an action filed on August 1, 2012, by Syncora Guarantee Inc. and Syncora Capital Assurance Inc. (collectively, “Syncora”) against the State, the State Controller, the State Director of Finance, and the County Auditor-Controller on his own behalf and as the representative of all other County Auditors in the State (Superior Court of the State of California, County of Sacramento, Case No. 34-2012-80001215). Syncora is a monoline financial guaranty insurer domiciled in the State of New York and has provided bond insurance and other related insurance policies for bonds issued by former California redevelopment agencies.

The complaint alleged that the Dissolution Act, and specifically the “Redistribution Provisions” thereof (i.e., California Health and Safety Code sections 34172(d), 34174, 34177(d), 34183(a)(4), and 34188) violate the “contract clauses” of the United States and California Constitutions (U.S. Const. art. 1, §10, cl.1; Cal. Const. art. 1, §9) because they unconstitutionally impair the contracts among the former redevelopment agencies, bondholders and Syncora. The complaint also alleged that the Redistribution Provisions violate the “Takings Clauses” of the United States and California Constitutions (U.S. Const. amend. V; Cal Const. art. 1 § 19) because they unconstitutionally take and appropriate bondholders’ and Syncora’s contractual right to critical security mechanisms without just compensation.

After hearing by the Sacramento County Superior Court on May 3, 2013, the Superior Court ruled that Syncora’s constitutional claims based on contractual impairment were premature. The Superior Court also held that Syncora’s takings claims, to the extent based on the same arguments, were also premature. Pursuant to a Judgment stipulated to by the parties, the Superior Court on October 3, 2013, entered its order dismissing the action. The Judgment, however, provides that Syncora preserves its rights to reassert its challenges to the Dissolution Act in the future. The Agency does not guarantee that any reassertion of challenges by Syncora or that the final results of any of the judicial actions brought by others challenging the Dissolution Act will not result in an outcome that may have a material adverse effect on the Agency’s ability to timely pay debt service on the 2019 Bonds.

Bankruptcy and Foreclosure

The payment of the property taxes from which Pledged Tax Revenues are derived and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940 discussed below) or by the laws of the State relating to judicial foreclosure. In addition, the prosecution of a foreclosure action could be delayed due to crowded local court calendars or delays in the legal process. The various legal opinions to be delivered concurrently with the delivery of the 2019 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings because federal bankruptcy laws may provide for an automatic stay of foreclosure and sale of tax sale proceedings. Such delay would increase the possibility of delinquent tax installments not being paid in full and thereby increase the likelihood of a delay or default in payment of the principal of and interest on the 2019 Bonds. Moreover, if the value of the subject property is less than the lien of property taxes, such excess could be treated as an unsecured claim by the bankruptcy court. Further, should remedies be exercised under the federal bankruptcy laws, payment of property taxes may be subordinated to bankruptcy law priorities. Thus, certain claims may have priority over property taxes in a bankruptcy proceeding even though they would not outside of a bankruptcy proceeding.

In addition, the United States Bankruptcy Code might prevent moneys on deposit in the Redevelopment Obligation Retirement Fund from being applied to pay interest on the 2019 Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner and if the court found that such landowner had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

Other laws generally affecting creditors' rights or relating to judicial foreclosure may affect the ability to enforce payment of property taxes or the timing of enforcement thereof. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if a court concludes that the ability to pay such taxes or assessments is materially affected by reason of such service.

As discussed under the caption "PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Delinquencies*," under its current policies, the County Auditor-Controller distributes 100% of tax increment revenues allocated to each redevelopment successor agency without regard to delinquencies in the payment of property taxes. However, there can be no assurance that such policies will not be changed in the future.

Estimated Revenues

In estimating that Pledged Tax Revenues will be sufficient to pay debt service on the 2019 Bonds and Parity Bonds, the Agency has made certain assumptions with regard to present and future assessed valuation in the Project Area, future tax rates and percentage of taxes collected. The Agency believes these assumptions to be reasonable, but there is no assurance that these assumptions will be realized. To the extent that the assessed valuation and the tax rates are less than expected, the Pledged Tax Revenues available to pay debt service on the 2019 Bonds and Parity Bonds will be less than those projected and such reduced Pledged Tax Revenues may be insufficient to provide for the payment of principal of, premium (if any) and interest on the 2019 Bonds and Parity Bonds.

Hazardous Substances

While governmental taxes, assessments, and charges are a common claim against the value of a taxable parcel, other less common claims may be relevant. One example is a claim with regard to a hazardous substance.

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a taxable parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State and local laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxable parcels be affected by a hazardous substance is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of the property that is realizable upon a delinquency and foreclosure.

Further, it is possible that liabilities may arise in the future with respect to any of the taxable parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not only from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a taxable parcel that is realizable upon a delinquency.

Natural Disasters

Natural disasters, including floods and earthquakes, could damage improvements and/or property in the Project Area, or impair the ability of landowners within the Project Area to develop their properties or to pay property taxes.

Several active fault zones lie within Southern California. Although no known earthquake fault crosses the City, potentially active faults in the vicinity of the City include the Rose Canyon and Coronado Bank Faults, located approximately 14 miles west of the City. Seismic activity also can occur on previously undetected faults. In the event of a significant earthquake, substantial damage could occur to the property within the Project Area.

If an earthquake were to substantially damage or destroy taxable property within the Project Area, the assessed valuation of such property would be reduced. Such a reduction of assessed valuations could result in a reduction of the Pledged Tax Revenues that secure the 2019 Bonds

According to the Safety Element of the City’s General Plan, although the City is located in a semi-desert climate, flooding can occur during winter rains as drainages and streams swell from increased flow. Runoff during winter rains can also accumulate and cause localized flooding. A portion of the Project Area, along Federal Boulevard, lies within a 100-year flood-plain.

The property within the Project Area may also be at risk from other events of force majeure, such as damaging storms, floods, fires, wildfires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events. The Agency cannot predict what force majeure events may occur in the future.

Changes in the Law

There can be no assurance that the State electorate will not at some future time adopt initiatives or that the State Legislature will not enact legislation that will amend the Dissolution Act, the Redevelopment Law or other laws or the Constitution of the State resulting in a reduction of Pledged Tax Revenues, which could have an adverse effect on the Agency's ability to pay debt service on the 2019 Bonds.

Investment Risk

Funds held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See Appendix B for a summary of the definition of Permitted Investments. The funds and accounts of the Agency, into which a portion of the proceeds of the 2019 Bonds will be deposited and into which Pledged Tax Revenues are deposited, may be invested by the Agency in any investment authorized by law. All investments, including the Permitted Investments and those authorized by law from time to time for investments by municipalities, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. See also the caption “—Bankruptcy and Foreclosure.”

Secondary Market

There can be no guarantee that there will be a secondary market for the 2019 Bonds, or, if a secondary market exists, that the 2019 Bonds can be sold for any particular price. Although the Agency has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Owners of the 2019 Bonds on a timely basis. See the caption “CONCLUDING INFORMATION—Continuing Disclosure” and Appendix G. Any failure to provide annual financial information, if required, does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then prevailing circumstances. Such prices could be substantially different from the original purchase price.

No Validation Proceeding Undertaken

Code of Civil Procedure Section 860 authorizes public agencies to institute a process, otherwise known as a “validation proceeding,” for purposes of determining the validity of a resolution or any action taken pursuant thereto. Section 860 authorizes a public agency to institute validation proceedings in cases where another statute authorizes its use. Relevant to the 2019 Bonds, Government Code Section 53511 authorizes a local agency to “bring an action to determine the validity of its bonds, warrants, contracts, obligations or evidences of indebtedness.” Pursuant to Code of Civil Procedure Section 870, a final favorable judgment issued in a validation proceeding shall, notwithstanding any other provision of law, be forever binding and conclusive, as to all matters therein adjudicated or which could have been adjudicated, against all persons: “The judgment shall permanently enjoin the institution by any person of any action or proceeding raising any issue as to which the judgment is binding and conclusive.”

The Agency has not undertaken or endeavored to undertake any validation proceeding in connection with the issuance of the 2019 Bonds. The Agency and Bond Counsel have relied on the provisions of AB 1484 authorizing the issuance of the 2019 Bonds and specifying the related deadline for any challenge to the 2019 Bonds to be brought. Specifically, Section 34177.5(e) of the Dissolution Act provides that notwithstanding any other law, an action to challenge the issuance of bonds (such as the 2019 Bonds), the incurrance of indebtedness, the amendment of an enforceable obligation, or the execution of a financing agreement authorized under Section 34177.5, must be brought within 30 days after the date on which the

oversight board approves the resolution of the successor agency approving such financing. Such challenge period expired with respect to the 2019 Bonds and the Oversight Board Resolution on June 16, 2018.

It is possible that the definition of Pledged Tax Revenues could be affected by changes in law or judicial decisions relating to the dissolution of redevelopment agencies. However, any action by a court to invalidate provisions of the Dissolution Act required for the timely payment of principal of, and interest on, the 2019 Bonds could be subject to issues regarding unconstitutional impairment of contracts and unconstitutional taking without just compensation. The Agency believes this constitutional provision would provide some protection against the adverse consequences upon the Agency and the availability of Pledged Tax Revenues for the payment of debt service on the 2019 Bonds in the event of successful challenges to the Dissolution Act or portions thereof. However, the Agency provides no assurance that any other lawsuit challenging the Dissolution Act or portions thereof will not result in an outcome that may have a detrimental effect on the Agency's ability to timely pay debt service on the 2019 Bonds.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2019A Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the 2019A Bonds might be affected as a result of such an audit of the 2019A Bonds (or by an audit of similar municipal obligations).

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the 2019A Bonds, the City and the Agency have covenanted in the Indenture and the Tax Certificate relating to the 2019A Bonds not to take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest on the 2019A Bonds under Section 103 of the Internal Revenue Code of 1986, as amended. Interest on the 2019A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance, as a result of acts or omissions of the City or the Agency subsequent to the issuance of the 2019A Bonds in violation of such covenants with respect to the 2019A Bonds. Should such an event of taxability occur, the 2019A Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or unless earlier redeemed pursuant to the redemption provisions of the Indenture.

Bonds Are Limited Obligations

Neither the faith and credit nor the taxing power of the Agency (except to the limited extent set forth in the Indenture), the City, the State or any political subdivision thereof is pledged to the payment of the 2019 Bonds. The 2019 Bonds are special obligations of the Agency; and, except as provided in the Indenture, they are payable solely from Pledged Tax Revenues. Pledged Tax Revenues could be insufficient to pay debt service on the 2019 Bonds as a result of delinquencies in the payment of property taxes or the insufficiency of proceeds derived from the sale of land within the Agency following a delinquency in the payment of the applicable property taxes. As discussed under the caption "PROPERTY TAXATION IN CALIFORNIA—Property Tax Collection Procedures—*Delinquencies*," under its current policies, the County Auditor-Controller distributes 100% of tax increment revenues allocated to each redevelopment successor agency in the County without regard to delinquencies in the payment of property taxes. However, there can be no assurance that such policies will not be changed in the future. The Agency has no obligation to pay debt service on the 2019 Bonds in the event of insufficient Pledged Tax Revenues, except to the extent that money is available for such purpose in the Redevelopment Obligation Retirement Fund, the Debt Service Fund and the Reserve Account.

Bond Insurance

In the event of default of the payment of the scheduled principal of or interest on the 2019 Bonds when all or some becomes due, the Trustee on behalf of any owner of the 2019 Bonds shall have a claim under the Policy for such payments. The 2019 Insurer may direct and must consent to any remedies with respect to the 2019 Bonds and the 2019 Insurer's consent may be required in connection with amendments to any applicable documents relating to the 2019 Bonds. See Appendix B—"SUMMARY OF THE INDENTURE—SECURITY OF BONDS; FLOW OF FUNDS—Provisions Relating to the 2018 Insurance Policy" and "—Provisions Relating to 2018 Reserve Policy."

The long-term ratings on the 2019 Bonds are dependent in part on the financial strength of the 2019 Insurer and its claims paying ability. The 2019 Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the 2019 Insurer and the ratings on the 2019 Bonds will not be subject to downgrade and such event could adversely affect the market price of the 2019 Bonds or the marketability (liquidity) for the 2019 Bonds. See "CONCLUDING INFORMATION—Ratings" herein.

The obligations of the 2019 Insurer are unsecured contractual obligations and in an event of default by the 2019 Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the Agency nor the Underwriter has made independent investigation into the claims paying ability of the 2019 Insurer and no assurance or representation regarding the financial strength or projected financial strength of the 2019 Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Agency to make the payments on the 2019 Bonds and the claims paying ability of the 2019 Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information regarding the 2019 Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the 2019 Insurer.

Limitations on Remedies

Remedies available to the Owners of the 2019 Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the 2019 Bonds or to preserve the tax-exempt status of the 2019 Bonds.

Bond Counsel has limited its opinion as to the enforceability of the 2019 Bonds and 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 creditors' 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.

Enforceability of the rights and remedies of the Owners of the 2019 Bonds, and the obligations incurred by the Agency, may become subject to the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the federal Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State. See the caption "—Bankruptcy and Foreclosure."

TAX MATTERS

2019A Bonds

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2019A Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the 2019A Bonds is exempt from State of California personal income tax.

The difference between the issue price of a 2019A Bond (the first price at which a substantial amount of the 2019A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the 2019A Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to an Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by an Owner will increase the Owner's basis in the applicable 2019A Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the 2019A Bond is excluded from gross income of such Owner for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the 2019A Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2019A Bonds is based upon certain representations of fact and certifications made by the Agency and others and is subject to the condition that the Agency complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the 2019A Bonds to assure that interest (and original issue discount) on the 2019A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the 2019A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2019A Bonds. The Agency will covenant to comply with all such requirements.

The amount by which an Owner's original basis for determining loss on sale or exchange in the applicable 2019A Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Owner's basis in the applicable 2019A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in an Owner realizing a taxable gain when a 2019A Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019A Bond to the Owner. Purchasers of the 2019A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the 2019A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any 2019A Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the 2019A Bonds is excluded from gross income for federal income tax purposes provided that the Agency continues to comply with certain requirements of the Code, the ownership of the 2019A Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2019A Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2019A Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019A Bonds.

The Internal Revenue Service (the “IRS”) has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2019A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2019A Bonds might be affected as a result of such an audit of the 2019A Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the 2019A Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the 2019A Bonds or their market value.

FOLLOWING THE ISSUANCE OF THE 2019A BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE 2019A BONDS OR THE MARKET VALUE OF THE 2019A BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE 2019A BONDS. IT IS POSSIBLE THAT LEGISLATIVE CHANGES WILL BE INTRODUCED WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME OR STATE TAX BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE 2019A BONDS. NO ASSURANCE CAN BE GIVEN THAT FOLLOWING THE ISSUANCE OF THE 2019A BONDS, STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 2019A BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE 2019A BONDS.

A copy of the proposed form of the opinion of Bond Counsel to be delivered at Closing with respect to the 2019 Bonds is attached hereto as Appendix C.

2019B Bonds

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest with respect to the 2019B Bonds is exempt from State of California personal income tax.

The difference between the issue price of a 2019B Bond (the first price at which a substantial amount of the 2019B Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2019B Bond constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the 2019B Bond Owner will increase the 2019B Bond Owner’s basis in the 2019B Bond.

The amount by which a 2019B Bond Owner’s original basis for determining loss on sale or exchange in the applicable 2019B Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable 2019B Bond premium, which a 2019B Bond holder may elect to amortize under Section 171 of the Code; such amortizable 2019B Bond premium reduces the 2019B Bond Owner’s basis in the applicable 2019B Bond (and the amount of taxable interest received), and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of 2019B Bond premium

may result in a 2019B Bond Owner realizing a taxable gain when a 2019B Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019B Bond to the Owner. Purchasers of the 2019B Bond should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable 2019B Bond premium.

In the event of a legal defeasance of a 2019B Bond, such bond might be treated as retired and “reissued” for federal tax purposes as of the date of the defeasance, potentially resulting in recognition of taxable gain or loss to the applicable 2019B Bond Owner generally equal to the difference between the amount deemed realized from the deemed redemption and reissuance and the 2019B Bond Owner’s adjusted tax basis in such bond.

The federal tax and State of California personal income tax discussion set forth above is included for general information only and may not be applicable depending upon an owner’s particular situation. The ownership and disposal of the 2019B Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 2019B Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the 2019B Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the 2019B Bonds.

A copy of the proposed form of the opinion of Bond Counsel to be delivered at Closing with respect to the 2019 Bonds is attached hereto as Appendix C.

CONCLUDING INFORMATION

Underwriting

The 2019 Bonds are being purchased by Raymond James & Associates, Inc. (the “Underwriter”) pursuant to a Bond Purchase Agreement, dated December 10, 2019 (the “Purchase Agreement”), by and between the Underwriter and the Agency. The Underwriter has agreed to purchase the 2019A Bonds at a price of \$4,201,254.40 (being the aggregate principal amount thereof, plus original issue premium of \$423,062.10, less an Underwriter’s discount of \$26,807.70) and the 2019B Bonds at a price of \$11,613,307.70 (being the aggregate principal amount thereof, less an Underwriter’s discount of \$81,692.30). The Purchase Agreement provides that the Underwriter will purchase all of the 2019 Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside front cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2019 Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

Municipal Advisor

Urban Futures, Inc., Tustin, California, has served as municipal advisor (“Municipal Advisor”) to the Agency in connection with the 2019 Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

Verification of Mathematical Computations

The Verification Agent, an independent accountant, upon delivery of the 2019 Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them that were prepared by the Agency, relating to the sufficiency of the cash and/or the maturing principal of and interest on the escrow securities to be deposited in the respective escrow funds for the Refunded Bonds, to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium, if any, with respect to the Refunded Bonds.

The Verification Agent's report will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or date or information coming to its attention, subsequent to the date of its report.

Legal Opinion

The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, approving the validity of the 2019 Bonds, stating that interest on the 2019A Bonds is excluded from gross income for federal income tax purposes and stating that interest on the 2019 Bonds is exempt from California personal income taxes under present State income tax laws will be furnished to the purchaser at the time of delivery of the 2019 Bonds at the expense of the Agency. Compensation for Bond Counsel's services is entirely contingent upon the sale and delivery of the 2019 Bonds.

A copy of the proposed form of Bond Counsel's final approving opinion with respect to the 2019 Bonds is attached hereto as Appendix C. The legal opinion is only as to legality and is not intended to be nor is it to be interpreted or relied upon as disclosure documents or express or implied recommendations as to the investment quality of the 2019 Bonds.

In addition, certain legal matters will be passed on for the Underwriter by Nixon Peabody LLP, as Underwriter's Counsel, for the Agency by the City Attorney of the City, as counsel to the Agency, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as disclosure counsel and for the Trustee by its counsel.

Litigation

There is no action, suit or proceeding known to the Agency to be pending and notice of which has been served upon and received by the Agency, or threatened, restraining or enjoining the execution or delivery of the 2019 Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the Agency taken with respect to any of the foregoing.

Ratings

In connection with the issuance and delivery of the 2019 Bonds, S&P Global Ratings ("S&P") is expected to assign its underlying municipal rating of "BBB+" to the 2019 Bonds. S&P is also expected to assign the 2019 Bonds the rating of "AA" based upon the delivery of the Policy by the 2019 Insurer at the time of issuance of the 2019 Bonds. See the caption "BOND INSURANCE." There is no assurance that the credit ratings given to the 2019 Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the 2019 Bonds. Such ratings reflect only the views of S&P and an explanation of the significance of such ratings may be obtained from S&P. Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the Agency which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

Continuing Disclosure

The Agency has covenanted in a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”) for the benefit of the holders and Beneficial Owners of the 2019 Bonds to provide certain financial information and operating data relating to the Agency by March 31 following the end of the Agency’s fiscal year (currently its fiscal year ends on June 30) (the “Annual Report”), commencing with the report for fiscal year ending June 30, 2019, and to provide notices of the occurrence of certain enumerated events.

The Annual Report and the notices of enumerated events will be filed by the Agency with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for municipal securities disclosures, maintained on the Internet at <http://emma.msrb.org/>. The specific nature of the information to be contained in the Annual Report and the notices of enumerated events are set forth in Appendix G. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”).

The City and its related governmental entities – specifically those entities (such as the Former Agency and the Agency) for whom City staff is responsible for undertaking compliance with continuing disclosure undertakings – have previously entered into disclosure undertakings under Rule 15c2-12 in connection with the issuance of long-term obligations.

During the last five years, the City and its related entities did not timely file the City’s audited financial statements for fiscal years 2015-16 and 2016-17.

Miscellaneous

All of the preceding summaries of the Indenture, the Bond Law, the Dissolution Act, the Redevelopment Law, other applicable legislation, the Redevelopment Plan for the Project Area, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Agency for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the 2019 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the City Manager, as the Executive Director of the Agency, has been duly authorized by the Agency.

SUCCESSOR AGENCY TO THE
LEMON GROVE COMMUNITY DEVELOPMENT
AGENCY

By: _____ /s/ Lydia Romero
Executive Director

APPENDIX A
FISCAL CONSULTANT'S REPORT

[THIS PAGE INTENTIONALLY LEFT BLANK]

December 12, 2019

Molly Brennan
Finance Director
City of Lemon Grove
3232 Main Street
Lemon Grove, California 91945

**RE: Successor Agency to the Community Development Agency of the City of Lemon Grove
Lemon Grove Redevelopment Project Area
Tax Increment Verification and Revenue Projections**

Dear Ms. Brennan:

Urban Futures, Inc. (UFI) is pleased to present this report of projected tax increment revenues to the Successor Agency to the Community Development Agency of the City of Lemon Grove (the "Successor Agency") for the Lemon Grove Redevelopment Project Area (the "Project Area"). The following information is included as exhibits to this report:

Exhibits A and A-1:	Tax Increment Projections
Exhibit B:	Historical Assessed Valuations
Exhibit C:	Ten Largest Secured Taxpayers
Exhibit D:	Project Area Land Uses
Exhibit E:	Project Area Map
Exhibit F:	Assessment Appeals

Projected taxable valuations and tax revenues contained in this report are based on assumptions derived from the following information:

1. Historical growth trends;
2. Trended growth in valuation as permitted by Article XIII A of the California Constitution (Proposition 13);
3. Financial reports and information supplied or prepared by the City;
4. Information provided by the County of San Diego, from the offices of the Auditor-Controller and Assessor; and
5. Data provided by Transamerica/Metroscan for parcel data.

The purpose of the projections is to demonstrate the availability of tax increment expected to be generated by the Project Area, to secure debt service requirements of the Successor Agency for the (proposed) 2019 Tax Allocation Refunding Bonds (the “2019 Bonds”). Tax Revenues will be allocated to the Successor Agency pursuant to the procedures described in AB X1 26, as amended by AB 1484 and SB 107 (the “Dissolution Act”), which include requirements that the Successor Agency annually file a Recognized Obligation Payment Schedule (“ROPS”) with the County and the State, and that each such ROPS be approved by the countywide oversight board (the “Oversight Board”) and the State Department of Finance.

Revenue projections have been conservatively estimated in order to reduce the risk of overstating future tax increment revenues.

Project Areas

1. Original Project Area

The Lemon Grove Community Development Agency (the “Agency”) was activated May 16, 1986 by Ordinance No. 86.16. On November 17, 1986, the Agency adopted its Redevelopment Plan for the Lemon Grove Redevelopment Project Area (the “Project Area”) by Ordinance No. 132. The Original Plan was subsequently amended by Ordinance No. 228 on December 20, 1994 to amend fiscal and time limitations contained in the Original Plan, as necessary, pursuant to AB 1290 mandates. The Original Plan was then amended by Ordinance No. 286 on November 17, 1998 to extend the time limit of eminent domain authority. Ordinance No. 359, adopted on November 21, 2006, amended certain time limitations pursuant to SB 1045 and SB 211, and eliminated the debt incurrence deadline.

Tables 1 and 2 below illustrate general information regarding the Project Area.

TABLE 1: RDA Plan / Amendments			
AREA	DATE OF ADOPTION	ORDINANCE NO.	ACTION
Project Area	November 17, 1986	132	Adoption of Redevelopment Plan
Project Area	December 20, 1994	228	AB 1290 Amendments
Project Area	November 17, 1998	286	Eminent Domain Extension
Project Area	November 21, 2006	359	SB 1045 and SB 211 extensions

TABLE 2: PROJECT AREA ACREAGE	
Area	Acres
Project Area	618 acres

Project Tax Rate Areas

The tax rate area numbers used by the San Diego County Auditor-Controller's Office to identify tax revenue apportionment for the Project Area are summarized in the following table.

TABLE 3: PROJECT TAX RATE AREA ID NUMBERS	
Project Area	15009, 15010, 15031, 15032, 15033, 15034, 15041, 15044, 15045, 15046, 15047, 15048, 15049, 15050

Pass Through Payments

Tax Sharing Agreements:

The Agency has entered into tax sharing agreements with taxing entities in the Project Area. The following tables summarize the provisions of the tax increment agreements with the affected taxing entities.

TABLE 4: SUMMARY OF TAX SHARING AGREEMENTS: Project Area	
Taxing Entity	Net Pass Through Percentage
San Diego County	24.89%
Lemon Grove School District	(Pass through terminated FY 2006-07)
Grossmont Union High School District & Grossmont-Cuyamaca Community College District	District's proportionate share of inflationary growth revenues

Statutory Pass Through Payments:

Pursuant to Health & Safety Code Section 33607.7, the Successor Agency is obligated to share tax increment revenues calculated pursuant to Health & Safety Code Section 33607.5 (the "AB 1290 Pass Through Formula") generated in the Project Area with affected taxing entities that do not have prior written agreements, commencing in FY 2007-08.

Generally, the AB 1290 Pass Through Formula is as follows:

	<u>Pass Through⁽¹⁾</u>
Tier A (Years 1-45)	25%
Tier B (Years 11-45)	21% + Tier A
Tier C (Years 31-45)	14% + Tiers A & B

(1) Applied to the taxing entity's share of tax increment, reduced by pro-rata share of Agency's low and moderate housing set-aside. Although the Successor Agency is no longer required to set aside housing monies in the low and moderate income housing fund, the Dissolution Act states that pass through payments will still be calculated as if the housing set-aside were still being made.

Section 33676 Election

Prior to the enactment of AB 1290, redevelopment project areas adopted between January 1, 1985 and January 1, 1994 were subject to payments to schools and to other affected taxing agencies that elected to receive tax revenue payments set forth under Section 33676 of the Law ("33676 Amounts"). The annual payments represent that portion of property taxes that are, or otherwise would be, calculated annually pursuant to subdivision (f) of Section 110.1 of the Revenue and Taxation Code (and referred to as the 2% inflation allocation).

The following taxing entities in the Project Area receive 33676 Amounts attributable to Project Area tax revenues: Grossmont Union High School District, Grossmont-Cuyamaca Community College, and the County Office of Education.

County Administration Charge

The San Diego County Auditor-Controller will deduct administration charges from the tax increment distributed to the Agency for the Project Area. Administration charges (estimated at 1.27% of projected Gross Tax Increment Revenues, based on actual administration charge for FY 18-19 in the amount of \$58,634) have been deducted from the Projected Tax Revenues (see Exhibits A and A-1).

Assessment Appeals

In San Diego County, a property owner desiring to reduce the assessed value of such owner's property in any one year must submit an application to the San Diego County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by September 15 of such tax year. The Appeals Board, within two years of each applicant's filing date, will hold a hearing and then either reduce the assessment or confirm the assessment.

As of October 7, 2019, there are 10 appeals outstanding for properties in the Project Area, representing \$28,869,913 of total assessed valuation. Exhibit F shows a breakdown of the outstanding assessment appeals by tax year. The projected tax revenues in Exhibits A and A-1 have not been adjusted for potential assessment appeal reductions, as the outcome of pending appeals cannot be predicted with certainty.

* * * * *

While UFI has taken steps to assure the accuracy of the data used in the formulation of these projections, we cannot insure that projected valuations will, in fact, be realized because actual values will most likely be affected by future events and conditions that cannot be predicted with certainty.

We believe that this report provides the Successor Agency to the Community Development Agency of the City of Lemon Grove with a reasonable basis for demonstrating the available tax increment revenues of the Lemon Grove Redevelopment Project Area. We are available to answer any questions that you may have regarding this information.

Sincerely,

URBAN FUTURES, INC.



Douglas P. Anderson
Director – Public Finance Group

PROJECTED TAX REVENUES

<u>FY</u>	<u>(1)</u> <u>Assessed</u> <u>Valuation</u>	<u>(2)</u> <u>Incremental</u> <u>Assessed</u> <u>Valuation</u>	<u>(3)</u> <u>Gross Tax</u> <u>Increment</u> <u>Revenue</u>	<u>(4)</u> <u>Pass-</u> <u>Through</u> <u>Amount</u>	<u>(5)</u> <u>County Admin.</u> <u>and Service</u> <u>Fees</u>	<u>(6)</u> <u>Pledged</u> <u>Tax</u> <u>Revenues</u>
(base)	\$ 105,834,602					
19-20	\$ 569,405,146	\$ 463,570,544	\$ 4,635,705	\$ 1,443,508	\$ 58,873	\$ 3,133,324
20-21	580,793,249	474,958,647	4,749,586	1,475,265	60,320	3,214,002
21-22	592,409,114	486,574,512	4,865,745	1,507,721	61,795	3,296,229
22-23	604,257,296	498,422,694	4,984,227	1,540,891	63,300	3,380,036
23-24	616,342,442	510,507,840	5,105,078	1,574,790	64,834	3,465,453
24-25	628,669,291	522,834,689	5,228,347	1,609,436	66,400	3,552,511
25-26	641,242,677	535,408,075	5,354,081	1,644,843	67,997	3,641,240
26-27	654,067,530	548,232,928	5,482,329	1,681,030	69,626	3,731,674
27-28	667,148,881	561,314,279	5,613,143	1,718,013	71,287	3,823,843
28-29	680,491,859	574,657,257	5,746,573	1,755,809	72,981	3,917,782
29-30	694,101,696	588,267,094	5,882,671	1,794,437	74,710	4,013,524
30-31	707,983,730	602,149,128	6,021,491	1,833,914	76,473	4,111,104
31-32	722,143,404	616,308,802	6,163,088	1,874,260	78,271	4,210,556
32-33	736,586,272	630,751,670	6,307,517	1,915,494	80,105	4,311,917
33-34	751,317,998	645,483,396	6,454,834	1,957,635	81,976	4,415,222
34-35	766,344,358	660,509,756	6,605,098	2,000,703	83,885	4,520,510
35-36	781,671,245	675,836,643	6,758,366	2,044,719	85,831	4,627,817
36-37	797,304,670	691,470,068	6,914,701	2,089,702	87,817	4,737,182

(1) Actual assessed valuation for FY 19-20. For FY 20-21 and later, the annual assumed assessed valuation growth factor is 2%.

Successor Agency to the Lemon Grove Community Development Agency

Exhibit A-1
"Zero growth"

PROJECTED TAX REVENUES

<u>FY</u>	<u>(1)</u> <u>Assessed</u> <u>Valuation</u>	<u>(2)</u> <u>Incremental</u> <u>Assessed</u> <u>Valuation</u>	<u>(3)</u> <u>Gross Tax</u> <u>Increment</u> <u>Revenue</u>	<u>(4)</u> <u>Pass-</u> <u>Through</u> <u>Amount</u>	<u>(5)</u> <u>County Admin.</u> <u>and Service</u> <u>Fees</u>	<u>(6)</u> <u>Pledged</u> <u>Tax</u> <u>Revenues</u>
(base)	\$ 105,834,602					
19-20	\$ 569,405,146	\$ 463,570,544	\$ 4,635,705	\$ 1,443,508	\$ 58,873	\$ 3,133,324
20-21	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
21-22	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
22-23	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
23-24	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
24-25	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
25-26	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
26-27	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
27-28	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
28-29	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
29-30	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
30-31	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
31-32	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
32-33	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
33-34	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
34-35	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
35-36	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324
36-37	569,405,146	463,570,544	4,635,705	1,443,508	58,873	3,133,324

(1) Actual assessed valuation for FY 19-20. For FY 20-21 and later, the annual assumed assessed valuation growth factor is 0%.

THE SUCCESSOR AGENCY TO THE LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Lemon Grove Redevelopment Project Area
Historical Taxable Values and Pledged Tax Revenues

	2014-15	2015-16	2016-17	2017-18	2018-19
Assessed Values					
Secured	\$397,816,496	\$407,470,660	\$423,884,935	\$455,847,514	\$495,435,799
Unsecured	49,168,242	48,635,413	44,820,665	47,132,872	49,230,584
Total Assessed Values	\$446,984,738	\$456,106,073	\$468,705,600	\$502,980,386	\$544,666,383
Base Year Values	105,834,602	105,834,602	105,834,602	105,834,602	105,834,602
Incremental Assessed Values	\$341,150,136	\$350,271,471	\$362,870,998	\$397,145,784	\$438,831,781
Gross Tax Revenues ⁽¹⁾	\$3,471,526	\$3,535,794	\$3,830,788	\$4,098,821	\$4,624,715
Less:					
County Admin & Service Fee ⁽¹⁾	\$54,227	\$52,199	\$76,972	\$54,616	\$58,634
Pass-Through Agreements ⁽¹⁾	967,268	994,872	1,090,502	1,212,061	1,418,566
Tax Revenues	\$2,450,031	\$2,488,723	\$2,663,314	\$2,832,145	\$3,147,515

(1) Based on actual Redevelopment Property Tax Trust Fund ("RPTTF") amounts from the County of San Diego.

Source: *Urban Futures, Inc.* with information from the San Diego County Auditor/Controller.

**Lemon Grove Redevelopment Project Area
Largest Local Secured Taxpayers/Property Owners
Fiscal Year 2019-20**

Property Owner	Taxable Secured Assessed Valuation	Primary Land Use	Percent of Secured AV ⁽¹⁾
1. Starboard Lemon Grove Dst	\$19,975,680	Commercial	3.87%
2. Hd Development Ofmaryland Inc	19,692,372	Commercial	3.82%
3. Celsius Lemon Grove LLC	17,945,268	Multi-Family Residential	3.48%
4. A B S Ca-O L L C	14,350,783	Commercial	2.78%
5. Terrace Gardens L L C	13,789,846	Multi-Family Residential	2.67%
6. Kobusch William O Revocable Trust (2)	11,656,950	Commercial	2.26%
7. Miller Family Real Estate LLC	10,200,000	Commercial	1.98%
8. Lemon Grove Holdings L L C	10,158,737	Commercial	1.97%
9. Hidalgo Realty L L C Et A	9,714,992	Commercial	1.88%
10. Taco Aide LLC	9,550,871	Commercial	1.85%
Total	\$137,035,499		26.55%

(1) Based on fiscal year 2019-20 secured assessed valuation of \$516,130,240.

(2) Currently has assessment appeal on file.

Source: *Urban Futures, Inc.* with information from the San Diego County 2019-20 Secured Property Tax Roll.

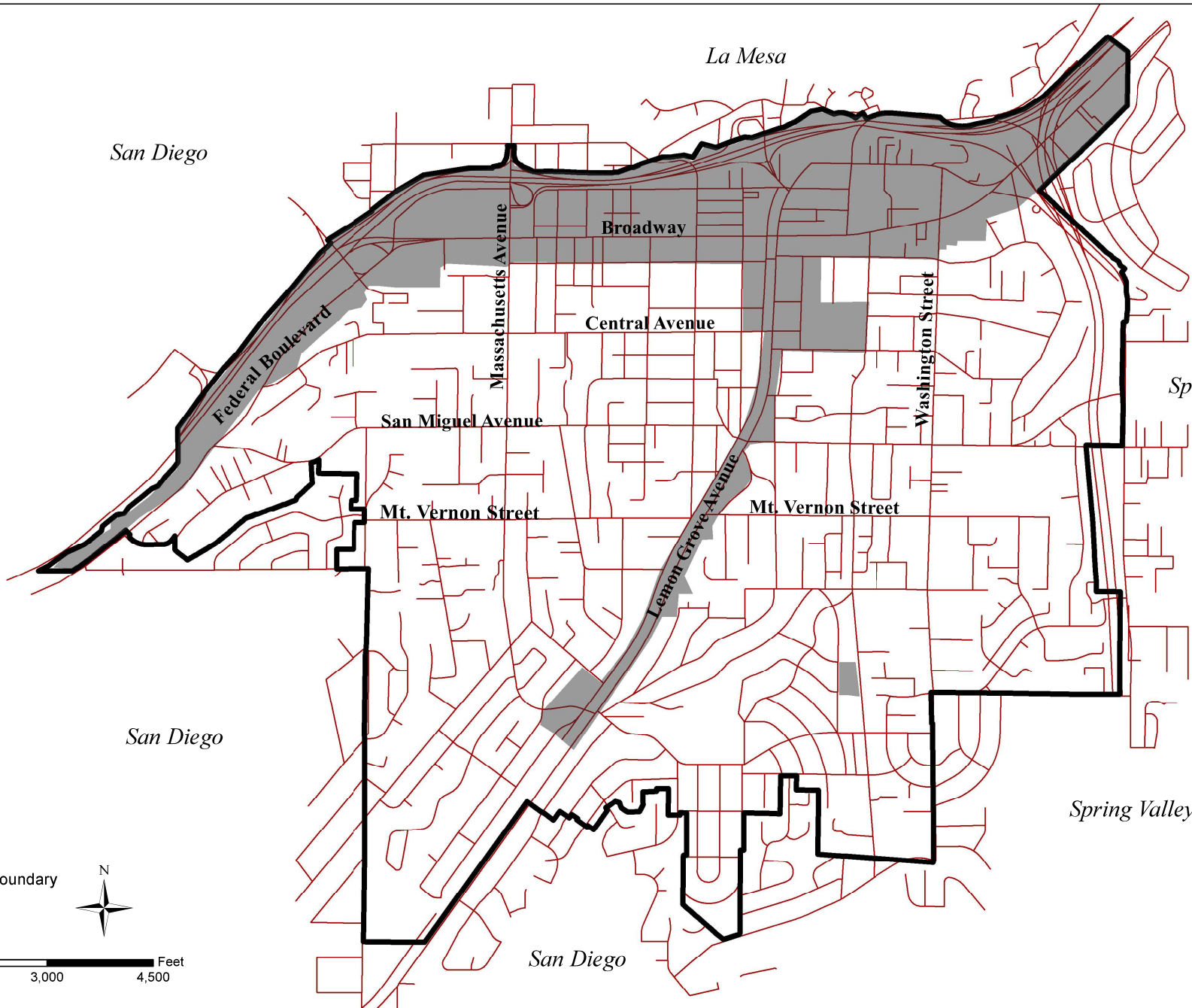
Exhibit D

SUCCESSOR AGENCY TO THE LEMON GROVE COMMUNITY DEVELOPMENT AGENCY
Lemon Grove Redevelopment Project Area
Land Use Summary
Fiscal Year 2019-20

Land Use	Number of Parcels	Secured Assessed Valuation	Percent of Secured A.V. ⁽¹⁾
Commercial	270	\$285,221,506	55.26%
Multi-Family Residential	82	90,739,467	17.58%
Single Family Residential	320	60,107,494	11.65%
Industrial	83	58,972,289	11.43%
Vacant Commercial	41	10,281,562	1.99%
Governmental/Institutional/Other	67	5,039,848	0.98%
Vacant Industrial	10	3,073,706	0.60%
Vacant Residential	16	2,273,270	0.44%
Recreational	6	421,097	0.08%
Vacant Governmental/Institutional/Other	2	0	0.00%
Total All Secured	897	\$516,130,240	100.00%

(1) Based on fiscal year 2019-20 secured assessed valuation of \$516,130,240.

Source: *Urban Futures, Inc.* with information from the San Diego County 2019-20 Secured Property Tax Roll.



San Diego

La Mesa




Spring Valley

San Diego

Spring Valley

San Diego

Legend

-  Project Area 1A
-  Lemon Grove Boundary
-  Roads

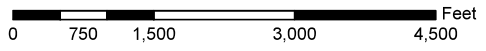


Exhibit F

Successor Agency to the Lemon Grove Community Development Agency

Historical Assessment Appeals
For Appeals Reviewed July 1, 2015 to October 7, 2019

Number of Appeals Filed	Number of Successful Appeals	Assessed Value of Property	Owner's Opinion of Value	Total Requested AV Reduction	Reduction Allowed by Board	Allowed Reductions as % of Requested
33	9	\$ 133,543,367	\$ 69,243,018	\$ 64,300,349	\$ 3,983,363	6.19%

Outstanding Assessment Appeals

Roll Year Appealed	Number of Appeals Filed	Assessed Value of Property	Owner's Opinion of Value	Total Requested AV Reduction	Historical Success Rate	Potential AV Reduction (based on historical success)
2017	1	\$ 1,952,202	\$ 976,101	\$ 976,101	6.19%	\$ 60,469
2018	8	24,917,711	11,636,262	13,281,449	6.19%	822,777
2019	1	2,000,000	1,200,000	800,000	6.19%	49,559
TOTAL	10	\$ 28,869,913	\$ 13,812,363	\$ 15,057,550		\$ 932,805

Source: *Urban Futures, Inc.* with data obtained from San Diego County Assessor/Recorder/Clerk

APPENDIX B

SUMMARY OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust (the “Indenture”) authorizing the 2019 Bonds that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual Indenture (copies of which may be obtained from the Trustee) for the complete terms thereof.

DEFINITIONS

Unless the context otherwise requires, the terms defined in the Indenture shall, for all purposes of the Indenture, of any Supplemental Indenture, and of any certificate, opinion or other document therein mentioned, have the meanings therein specified.

“Additional Parity Bonds” means any additional tax allocation bonds (including, without limitation, bonds, notes, interim certificates, debentures or other obligations) issued by the Successor Agency on a parity with the Bonds and the Existing Parity Bonds as permitted by the Indenture and the Existing Parity Bonds Indenture.

“Annual Debt Service” means, for any Bond Year, the principal and interest, including scheduled sinking fund payments, payable on the Outstanding Bonds in such Bond Year.

“Bond Counsel” means Stradling Yocca Carlson & Rauth, a Professional Corporation, or another attorney or firm of attorneys acceptable to the Successor Agency of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions.

“Bond” or “Bonds” means the 2019A Bonds and the 2019B Bonds.

“Bond Year” means the twelve (12) month period commencing on August 2 of each year, provided that the first Bond Year shall extend from the Delivery Date to August 1, 2020.

“Bondowner” or “Owner”, or any similar term, means any person who shall be the registered owner or his duly authorized attorney, trustee or representative of any Outstanding Bond.

“Business Day” means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city in which the corporate trust office of the Trustee is located are authorized to close, or (ii) a day on which the New York Stock Exchange is closed.

“Calendar Year” means the twelve month period commencing January 1 and ending on December 31.

“Certificate” or “Certificate of the Successor Agency” means a Written Certificate of the Successor Agency.

“City” means the City of Lemon Grove, State of California.

“Code” means the Internal Revenue Code of 1986, as amended, and any regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Computation Year” means, with respect to the Bonds, the period beginning on the Delivery Date and ending on August 1, 2020, and each 12-month period ending on August 1 thereafter until there are no longer any Bonds Outstanding.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate relating to the Bonds dated the Delivery Date as originally executed by the Successor Agency and as it may be amended from time to time in accordance with the terms thereof.

“Corporate Trust Office” means the corporate trust office of the Trustee, currently at U.S. Bank National Association, except for exchange, surrender and payment of the Bonds, in which case “Trust Office” shall refer to the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota, or such other or additional offices as may be specified to the Successor Agency by the Trustee in writing.

“Costs of Issuance Fund” means the trust fund of that name established in the Indenture.

“Debt Service Fund” means the trust fund established in the Indenture.

“Defeasance Securities” means:

1. Cash
2. Obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America including:
 - United States of America treasury obligations
 - All direct or fully guaranteed obligations
 - Farmers Home Administration
 - General Services Administration
 - Guaranteed Title XI financing
 - Government National Mortgage Association (GNMA)
 - State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

“Delivery Date” means the date on which the Bonds are delivered to the initial purchaser thereof.

“Dissolution Act” means Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State of California.

“Existing Parity Bonds” means the 2014 Bonds.

“Existing Parity Bonds Indenture” means the 2014 Indenture, to the extent any of the respective Existing Parity Bonds are Outstanding thereunder.

“Fiscal Year” means any twelve (12) month period beginning on July 1st and ending on the next following June 30th.

“Fund or Account” means any of the funds or accounts referred to in the Indenture.

“Indenture” means that certain Indenture of Trust dated as of December 1, 2019, between the Successor Agency and U.S. Bank National Association, approved by a resolution adopted by the Successor Agency on September 17, 2019, authorizing the issuance of the Bonds.

“Independent Financial Consultant” “Independent Engineer” “Independent Certified Public Accountant” or “Independent Redevelopment Consultant” means any individual or firm engaged in the profession involved, appointed by the Successor Agency, and who, or each of whom, has a favorable reputation in the field in which his/her opinion or certificate will be given, and:

- (1) is in fact independent and not under domination of the Successor Agency;
- (2) does not have any substantial interest, direct or indirect, with the Successor Agency; and
- (3) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

“Insurer” means the 2019 Insurer and, as applicable, the provider of a municipal bond or financial guaranty insurance policy with respect to other Bonds.

“Interest Account” means the account by that name referenced in the Indenture.

“Interest Payment Date” means February 1 and August 1, commencing February 1, 2020 so long as any of the Bonds remain Outstanding under the Indenture.

“Late Payment Rate” means, as calculated by the Insurer, the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such bank, banking association or trust company bank as the Insurer in its sole and absolute discretion shall specify.

“Law” means the Community Redevelopment Law of the State of California as cited in the recitals of the Indenture.

“Maximum Annual Debt Service” means the largest of the sums obtained for any Bond Year after the computation is made, by totaling the following for each such Bond Year:

- (1) The principal amount of all Bonds and Parity Bonds, if any, and the amount of any sinking account payments payable in such Bond Year; and
- (2) The interest which would be due during such Bond Year on the aggregate principal amount of Bonds and Parity Bonds which would be outstanding in such Bond Year if the Bonds and Parity Bonds outstanding on the date of such computation were to mature or be redeemed in accordance with the maturity schedules for the Bonds and Parity Bonds. At the time and for the purpose of making such computation, the amount of term Bonds and term Parity Bonds already retired in advance of the above-mentioned schedules shall be deducted pro rata from the remaining amounts thereon.

“Opinion of Counsel” means a written opinion of an attorney or firm of attorneys of favorable reputation in the field of municipal bond law. Any opinion of such counsel may be based upon, insofar as it is related to factual matters, information which is in the possession of the Successor Agency as shown by a certificate or opinion of, or representation by, an officer or officers of the Successor Agency, unless such counsel knows, or in the exercise of

reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which his or her opinion may be based, as aforesaid, is erroneous.

“Outstanding” means, when used as of any particular time with reference to Bonds, subject to the provisions of the Indenture, all Bonds theretofore issued and authenticated under the Indenture except:

- (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds paid or deemed to have been paid; and
- (c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and authenticated pursuant to the Indenture.

“Oversight Board” means the San Diego Countywide Oversight Board duly constituted from time to time pursuant to Section 34179 of the Dissolution Act.

“Pass-Through Agreements” means the agreements entered into on or prior to the date of the Indenture pursuant to Section 33401 of the Health and Safety Code with the County of San Diego and Lemon Grove School District.

“Permitted Investments” means:

- (a) For all purposes, including defeasance investments in refunding escrow accounts.
 - (1) Defeasance Securities
- (b) For all purposes other than defeasance investments in refunding escrow accounts.
 - (1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Rural Economic Community Development Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration -Federal Financing Bank
 - (2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations of other Government Sponsored Agencies
 - (3) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks, which may include the Trustee, its parent holding company, if any, and their affiliates, which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

- (4) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase;
 - (5) Investments in a money market fund, including those of an affiliate of the Trustee rated “AAAm” or “AAAm-G” or better by S&P;
 - (6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and
 - (A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or
 - (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (2) of the definition of Defeasance Securities, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.
 - (7) Municipal Obligations rated “Aaa/AAA” or general obligations of States with a rating of “A2/A” or higher by both Moody’s and S&P.
 - (8) Investment Agreements with an entity rated “A” or higher by S&P; and
 - (9) The Local Agency Investment Fund of the State or any state administered pooled investment fund in which the Successor Agency is statutorily permitted or required to invest will be deemed a permitted investment.
- (c) The value of the above investments shall be determined as follows:
- (1) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, and Bank of America Merrill Lynch.
 - (2) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest thereon; and
 - (3) As to any investment not specified above: the value thereof established by prior agreement among the Successor Agency and the Trustee.

“Pledged Tax Revenues” means the monies deposited from time to time in the Redevelopment Property Tax Trust Fund established pursuant to subdivision (c) of Section 34172 of the Dissolution Act, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act, less all Statutory Pass-Through Amounts,

all 33676 Amounts and all amounts required to be paid to other taxing entities pursuant to the Pass-Through Agreements to the extent such amounts are not subordinate to the Bonds. If, and to the extent, that the provisions of Section 34172 or paragraph (2) of subdivision (a) of Section 34183 are invalidated by a final judicial decision, then Pledged Tax Revenues shall include all tax revenues allocated to the payment of indebtedness pursuant to Health & Safety Code Section 33670 or such other section as may be in effect at the time providing for the allocation of tax increment revenues in accordance with Article XVI, Section 16 of the California Constitution.

“Principal Account” means the account by that name referenced in the Indenture.

“Principal Payment Date” means August 1, commencing August 1, 2020, so long as any of the Bonds remain Outstanding under the Indenture.

“Prior Agency” means the Lemon Grove Community Development Agency.

“Project Area” means the project area defined and described in the Redevelopment Plan as amended from time to time.

“Rebate Regulations” means the final Treasury Regulations issued under Section 148(f) of the Code.

“Recognized Obligation Payment Schedule” means a Recognized Obligation Payment Schedule, each prepared and approved from time to time pursuant to subdivision (l) of Section 34177 of the Dissolution Act.

“Redemption Account” means the account by that name referenced in the Indenture.

“Redevelopment Law” means the Community Redevelopment Law of the State of California (commencing with Health and Safety Code Section 33000).

“Redevelopment Plan” means the Redevelopment Plan for the Redevelopment Project, approved by Ordinance No. 132 adopted by the City Council on November 17, 1986, and includes any amendment thereof made pursuant to the Law.

“Redevelopment Project Area,” “Redevelopment Project” or “Project Area” means the Lemon Grove Redevelopment Project Area .

“Registration Books” means the books kept by the Trustee containing the registration and transfer information for the Bonds.

“Regular Record Date” means the fifteenth day of the month preceding any Interest Payment Date whether or not such day is a Business Day.

“Report” means a document in writing signed by an Independent Financial Consultant and including:

(a) A statement that the person or firm making or giving such Report has read the pertinent provisions of the Indenture to which such Report relates;

(b) A brief statement as to the nature and scope of the examination or investigation upon which the Report is based; and

(c) A statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

“Reserve Account” means the account by that name referenced in the Indenture.

“Reserve Requirement” means, as of the date of computation, an amount equal to the lesser of (i) Maximum Annual Debt Service on the Bonds, the Existing Parity Bonds and any Additional Parity Bonds, (ii) 10% of the net proceeds of the Bonds, the Existing Parity Bonds and any Additional Parity Bonds, or (iii) 125% of the Annual Debt Service on all Bonds, the Existing Parity Bonds and any Additional Parity Bonds Outstanding.

“Redevelopment Obligation Retirement Fund” means the fund by that name referenced in the Indenture.

“Semiannual Period” means (a) each six-month period beginning on January 1 of any calendar year and ending on June 30 of such calendar year, and (b) each six-month period beginning on July 1 of any calendar year and ending on December 31 of such calendar year.

“Standard & Poor’s” or “S&P” means S&P Global Ratings, LLC, a Standard & Poor’s Financial Services LLC business, and its successors.

“State” means the State of California, United States of America.

“Statutory Pass-Through Amounts” means amounts paid to affected taxing agencies pursuant to Sections 33607.5 and/or 33607.7 of the Law and Section 34183 of the Dissolution Act.

“Supplemental Indenture” means any indenture then in full force and effect which has been duly adopted by the Successor Agency under the Dissolution Act, or any act supplementary thereto or amendatory thereof, at a meeting of the Successor Agency duly convened and held, of which a quorum was present and acted thereon, amendatory of or supplemental to the Indenture or any indebtedness entered into in connection with the issuance of Parity Bonds; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Certificate” means that certain Tax Certificate executed by the Successor Agency with respect to the 2019A Bonds.

“Trustee” means U.S. Bank National Association, a national banking association, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

“Trust Office” means the corporate trust office of the Trustee in Los Angeles, California, or at such other place or places as may be designated by the Trustee from time to time including for registration, transfer, exchange or payment of the Bonds.

“Written Request of the Successor Agency” or “Written Certificate of the Successor Agency” means a request or certificate, in writing signed by the Executive Director, Secretary or Finance Officer of the Successor Agency or by any other officer of the Successor Agency duly authorized by the Successor Agency for that purpose.

“2014 Bonds” means the \$5,740,000 Lemon Grove Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 2014, issued pursuant to the 2014 Indenture.

“2014 Bonds Debt Service Fund” means the Debt Service Fund created for the Existing Parity Bonds pursuant to the 2014 Indenture.

“2014 Bonds Reserve Account” means the Reserve Account created for the Existing Parity Bonds pursuant to the 2014 Indenture.

“2014 Indenture” means that certain Indenture of Trust dated as of July 1, 2014 between the Successor Agency and the Trustee, authorizing the issuance of the 2014 Bonds.

“2019A Bonds” means the Lemon Grove Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 2019A (Tax-Exempt), authorized by and at any time Outstanding pursuant to the Indenture.

“2019B Bonds” means the Lemon Grove Redevelopment Project Area, Tax Allocation Refunding Bonds, Issue of 2019B (Federally Taxable), authorized by and at any time Outstanding pursuant to the Indenture.

“2019 Insurance Policy” means the insurance policy issued by the 2019 Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

“2019 Insurer” means Build America Mutual Assurance Company, or any successor thereto or assignee thereof.

“2019 Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy issued by the 2019 Insurer guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitation set forth therein.

“33676 Amounts” means payments made to schools and to other affected taxing agencies that elected to receive tax revenue payments set forth under Section 33676 of the Law.

AUTHORIZATION AND TERMS

Registration Books. The Trustee will keep or cause to be kept, at its Trust Office, sufficient records for the registration and registration of transfer of the Bonds, which shall at all times during normal business hours be open to inspection by the Successor Agency with reasonable prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the Registration Books, Bonds as provided in the Indenture.

Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Successor Agency, and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Successor Agency upon the same conditions and in substantially the same manner as the definitive Bonds. If the Successor Agency issues temporary Bonds it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange therefor at the Trust Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits pursuant to the Indenture as definitive Bonds authenticated and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Successor Agency, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon deliver, a new Bond of like amount and maturity in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Successor Agency and the Trustee and, if such evidence is satisfactory to both and indemnity satisfactory to them shall be given, the Successor Agency, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like amount and maturity in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Successor Agency may require payment of a sum not exceeding the actual cost of preparing each new Bond so issued and of the expenses which may be incurred by the Successor Agency and the Trustee in the premises. Any Bond issued under the provisions of the Indenture described in this paragraph in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Successor Agency whether or not the Bond so alleged to be lost, destroyed or stolen shall be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds issued pursuant to the Indenture.

DEPOSIT AND APPLICATION OF PROCEEDS
OF BONDS; PARITY DEBT

Issuance of Additional Parity Bonds. In addition to the Bonds and the Existing Parity Bonds subject to the requirements of the Indenture and the Existing Parity Bonds Indenture, the Successor Agency may issue or incur Additional Parity Bonds in such principal amount as shall be determined by the Successor Agency, pursuant to a separate or Supplemental Indenture adopted or entered into by the Successor Agency and Trustee and for such purposes as are permitted under the Dissolution Act, including without limitation Section 34177.5 thereof. The Successor Agency may issue or incur such Additional Parity Bonds subject to the following specific conditions precedent:

The Successor Agency will be in compliance with all covenants set forth in the Indenture and the Existing Parity Bonds Indenture;

The Oversight Board shall have approved the issuance of Additional Parity Bonds;

The Additional Parity Bonds will be on such terms and conditions as may be set forth in a separate or Supplemental Indenture, which will provide for (i) bonds substantially in accordance with the Indenture and the Existing Parity Bonds Indenture, and (ii) the deposit of moneys into a reserve account in an amount sufficient, together with the balance of the 2014 Bonds Reserve Account and the Reserve Account, to equal the Reserve Requirement on all Bonds, Existing Parity Bonds and Additional Parity Bonds expected to be outstanding;

Receipt of a certificate or opinion of an Independent Financial Consultant stating:

For the current and each future Bond Year the debt service for each such Bond Year with respect to all Bonds, the Existing Parity Bonds and Additional Parity Bonds reasonably expected to be outstanding following the issuance of the Additional Parity Bonds;

For the then current Fiscal Year, the Pledged Tax Revenues to be received by the Successor Agency based upon the most recently certified assessed valuation of taxable property in the Project Area provided by the appropriate officer of the County;

For each future Fiscal Year, the Pledged Tax Revenues referred to in item (ii) together with (a) the amount determined in accordance with Section 51(a) of the California Revenue and Taxation Code and (b) the amount of Pledged Tax Revenues to be payable with respect to construction completed but not yet on the tax roll, and taking into account the expiration of the time to receive Pledged Tax Revenues with respect to any portion of the Project Area and any amounts to be paid pursuant to the Pass Through Agreements, 33676 Amounts and the Statutory Pass-Through Amounts; and

That for the then current Fiscal Year, the Pledged Tax Revenues referred to in item (ii) and for each future Fiscal Year the Pledged Tax Revenues referred to in item (iii) are at least equal to the sum of 125% of the Maximum Annual Debt Service with respect to amounts referred to in item (i) above (excluding debt service with respect to any portion of the Additional Parity Bonds deposited in an escrowed proceeds account to the extent such debt service is paid from earnings on the investment of such funds), and, for the then current Fiscal Year, 100% of Annual Debt Service with respect to any subordinate debt and that the Successor Agency is entitled under the Dissolution Act, the Law and the Redevelopment Plan to receive taxes under Section 33670 of the Law in an amount sufficient to meet expected debt service with respect to all Bonds, Existing Parity Bonds and Additional Parity Bonds;

Notwithstanding the foregoing, if such Additional Parity Bonds are being issued for refunding purposes only, and otherwise satisfy the requirements of Health & Safety Code section 34177.5, then the Successor Agency may issue such Additional Parity Bonds without complying with the requirements of this Section 3.4(d); and

The Additional Parity Bonds will mature on and interest will be payable on the same dates as the Bonds (except the first interest payment may be from the date of the Additional Parity Bonds until the next

succeeding February 1 or August 1) provided, however, nothing in the Indenture shall preclude the Successor Agency from issuing and selling Additional Parity Bonds which do not pay current interest.

Issuance of Subordinate Debt. Notwithstanding the foregoing, no provision in the Indenture shall prevent the Successor Agency from issuing additional bonds or incurring other loans, advances or indebtedness payable from Pledged Tax Revenues on a subordinate basis to the Bonds. Subordinate debt issued as bonds shall be payable on the same dates as the Bonds unless otherwise consented to by the 2019 Insurer.

Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be dependent upon the completion of the Redevelopment Project or upon the performance by any person of his obligation with respect to the Redevelopment Project.

SECURITY OF BONDS; FLOW OF FUNDS

Security of Bonds; Equal Security. Except as otherwise provided in the Indenture, the Bonds shall be equally secured by a pledge and lien on all of the Pledged Tax Revenues and on all of the moneys in the Redevelopment Obligation Retirement Fund on a parity with the first pledge of and lien thereon of the Existing Parity Bonds and by a first and exclusive pledge and lien upon all of the moneys in the Debt Service Fund (including the Interest Account, the Principal Account, the Reserve Account (to the extent permitted) and the Redemption Account therein) without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Pledged Tax Revenues and such moneys, no funds or properties of the Successor Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest or redemption premium (if any) on the Bonds.

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

Redevelopment Obligation Retirement Fund, Debt Service Fund, Deposit of Pledged Tax Revenues. There has been established a special trust fund known as the "Redevelopment Obligation Retirement Fund," which shall be held by the Successor Agency pursuant to Section 34170.5 of the Dissolution Act. There is established a special trust fund known as the "Debt Service Fund" and the accounts therein referred to below which shall continue to be held by the Trustee. The Successor Agency shall deposit all of the Pledged Tax Revenues received in any Bond Year in the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Successor Agency, and promptly thereafter shall transfer amounts therein to the Trustee for deposit in the 2014 Bonds Debt Service Fund and the Debt Service Fund created under the Indenture until such time during such Bond Year as the amounts so transferred to the applicable Debt Service Fund under the Indenture and under the Existing Parity Bonds Indenture equal the aggregate amounts required to be transferred to the Trustee for deposit into the Interest Account, the Principal Account, the Reserve Account and the Redemption Account of such Debt Service Funds in such Bond Year pursuant to the Indenture and the Existing Parity Bonds Indenture and for deposit in such Bond Year in the funds and accounts established with respect to Additional Parity Bonds, as provided in any Supplemental Indenture. Amounts so transferred shall be transferred on a pro rata basis between each series of Bonds and the Existing Parity Bonds.

Transfer of Amounts to Trustee. There are created accounts within the Debt Service Fund as set forth below, known respectively as the Interest Account, the Principal Account, the Reserve Account and the Redemption Account. Moneys in the Debt Service Fund will be used to make payments on the Outstanding Bonds on a pro rata basis and will be transferred by the Trustee in the following amounts at the following times, for deposit by the Trustee in the following respective accounts within the Debt Service Fund, in the following order of priority:

(a) Interest Account. On or before the 5th Business Day preceding each Interest Payment Date the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Interest Account an amount which, when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date and the next following Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. Subject to the Indenture, all moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

Principal Account. On or before the 5th Business Day preceding each August 1, beginning August 1, 2020, the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount equal to the principal or sinking account payments becoming due and payable on the Outstanding Bonds on such August 1, to the extent monies on deposit in the Redevelopment Obligation Retirement Fund are available therefor. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal and sinking account payments to become due on such August 1 on all Outstanding Bonds. Subject to the Indenture, all moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal and sinking account payments of the Bonds as it becomes due and payable.

Reserve Account. Amounts in the Reserve Account are to be held separate and apart from amounts in the 2014 Bonds Reserve Account. Amounts on deposit in the 2014 Bonds Reserve Account shall not be available to pay debt service on the Bonds.

The Reserve Account shall be funded either in cash, with a Credit Facility, or both, in an amount equal to \$1,592,306.21, representing at least the share of the Reserve Requirement allocable to the Bonds. Amounts in the Reserve Account shall only be used to pay debt service on the Bonds.

In the event the Successor Agency fails to deposit with the Trustee no later than five (5) Business Days before any Interest Payment Date the full amount of the interest and principal and sinking account payments required to be deposited, the Trustee will, five (5) Business Days before such Interest Payment Date, withdraw from the applicable reserve account an amount equal to any such deficiency and will notify the Successor Agency of any such withdrawal. To the extent that a Credit Facility, including the 2019 Reserve Policy, has been deposited into a reserve account, then the Trustee shall draw on such Credit Facility to cure any such deficiency, but only after all available moneys on deposit in said reserve account have been so used. Promptly upon receipt of any such notice, the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the applicable reserve account an amount sufficient to maintain the applicable portion of the Reserve Requirement on deposit in the applicable reserve account or to repay an Insurer for any draws on a Credit Facility, including the 2019 Reserve Policy. Draws on the 2019 Reserve Policy, and the repayment of such amounts to the 2019 Insurer, shall be governed by the provisions of the Indenture described under the caption “—Provisions Relating to 2019 Reserve Policy.” If there is not sufficient moneys in the Redevelopment Obligation Retirement Fund to transfer an amount sufficient to maintain the applicable portion of the Reserve Requirement on deposit in the applicable reserve account or to repay an Insurer, as applicable, the Successor Agency will have an obligation to continue making transfers of Pledged Tax Revenues into the Redevelopment Obligation Retirement Fund, as such revenues become available, and thereafter, as moneys become available in the Redevelopment Obligation Retirement Fund, will make transfers to the applicable reserve account until there is an amount sufficient to maintain the Reserve Requirement on deposit in such reserve account or to the applicable Insurer until such Insurer has been made whole. No such transfer and deposit need be made to a reserve account so long as there is on deposit therein a sum at least equal to the applicable share of the Reserve Requirement. Subject to the Indenture and the Existing Parity Bonds Indenture all money in the Reserve Account will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in such order of priority, in the event of any deficiency at any time in any of such accounts or for the retirement of all the Bonds then Outstanding, except that so long as the Successor Agency is not in default under the Indenture, any amount in the Reserve Account in excess of the share of the Reserve Requirement allocable to the Bonds will be withdrawn from the Reserve Account semiannually on or before the 5th Business Day preceding February 1 and August 1 by the Trustee and deposited in

the Interest Account. All amounts in the Reserve Account on the 5th Business Day preceding the final Interest Payment Date will be withdrawn from the Reserve Account and will be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made or, (ii) if the Successor Agency shall have caused to be deposited with the Trustee an amount sufficient to make the deposits required by the Indenture, then at the Written Request of the Successor Agency such amount shall be transferred as directed by the Successor Agency.

The share of the Reserve Requirement allocable to the Bonds will be satisfied by the delivery of the 2019 Reserve Policy by the 2019 Insurer on the Closing Date with respect to the Bonds. The Successor Agency will have no obligation to replace the 2019 Reserve Policy or to fund the Reserve Account with cash if, at any time that the Bonds are Outstanding, any rating assigned to the 2019 Insurer is downgraded, suspended or withdrawn or amounts are not available under the 2019 Reserve Policy, other than in connection with a draw on the 2019 Reserve Policy.

Redemption Account. On or before the 5th Business Day preceding any date on which Bonds are to be redeemed, the Successor Agency will withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Redemption Account an amount required to pay the principal of, interest and premium, if any, on the Bonds (other than Bonds redeemed from sinking account payments) to be redeemed on such date. Subject to the Indenture, all moneys in the Redemption Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of, interest and premium, if any, on the Bonds to be redeemed on the date set for such redemption.

Rebate Fund. The Trustee has established the Rebate Fund and the Successor Agency shall comply with the requirements below. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund shall be governed by the Indenture and the Tax Certificate, unless the Successor Agency obtains an opinion of Bond Counsel that the exclusion from gross income of interest on the 2019A Bonds will not be adversely affected for federal income tax purposes if such requirements are not satisfied.

(a) Excess Investment Earnings

Computation. Within 55 days of the end of each fifth Computation Year with respect to the 2019A Bonds, the Successor Agency shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g. the temporary investments exception of Section 148(f)(4)(B) and the construction expenditure exception of Section 148(f)(4)(C) of the Code), for this purpose treating the last day of the applicable Computation Year as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the “Rebatable Arbitrage”). The Successor Agency shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

Transfer. Within 55 days of the end of each fifth Computation Year with respect to the 2019A Bonds, upon the Finance Officer’s written direction, an amount shall be deposited to the Rebate Fund by the Trustee from any legally available funds, including the other funds and accounts established in the Indenture, so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with the provisions of the Indenture described in clause (i) above. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written instructions from the Finance Officer, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Debt Service Fund.

Payment to the Treasury. The Successor Agency shall direct the Trustee in writing to pay to the United States Treasury, out of amounts in the Rebate Fund.

(X) Not later than 60 days after the end of (A) the fifth Computation Year with respect to the 2019A Bonds, and (B) each applicable fifth Computation Year thereafter, an

amount equal to at least 90% of the Rebateable Arbitrage calculated as of the end of such Computation Year; and

(Y) Not later than 60 days after the payment of all the 2019A Bonds, an amount equal to 100% of the Rebateable Arbitrage calculated as of the end of such applicable Computation Year, and any income attributable to the Rebateable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Successor Agency shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source, including the other funds and accounts established in the Indenture, equal to such deficiency in the Rebate Fund prior to the time such payment is due. Each payment required to be made pursuant to the provisions of the Indenture described in paragraph (a)(iii), above, shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T prepared by the Successor Agency, or shall be made in such other manner as provided under the Code.

Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the 2019A Bonds and the payments described in paragraph (a)(iii), above, shall be transferred by the Trustee to the Successor Agency at the written direction of the Successor Agency and utilized in any manner by the Successor Agency.

Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the rebate requirements of the Indenture shall survive the defeasance of the 2019A Bonds.

Trustee Responsible. The Trustee shall have no obligations or responsibilities under the rebate provisions of the Indenture other than to follow the written directions of the Successor Agency. The Trustee shall have no responsibility to make any calculations of rebate or to independently review or verify such calculations.

Provisions Relating to 2019 Insurance Policy. Notwithstanding any other provision in the Indenture to the contrary, so long as the 2019 Insurance Policy is in effect and the 2019 Insurer is not in default thereunder, the Successor Agency and the Trustee agree to comply with the following:

(a) In the event that principal and/or interest due on the Bonds shall be paid by the 2019 Insurer pursuant to the 2019 Insurance Policy, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Successor Agency, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Successor Agency to the registered owners shall continue to exist and shall run to the benefit of the 2019 Insurer, and the 2019 Insurer shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Bonds.

In the event that on the second business day prior to any payment date on the Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Bonds due on such payment date, the Trustee shall immediately notify the 2019 Insurer or its designee on the same business day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the 2019 Insurer or its designee.

In addition, if the Trustee has notice that any holder of the Bonds has been required to disgorge payments of principal of or interest on the Bonds pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Trustee shall notify the 2019 Insurer or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of the 2019 Insurer.

The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Bonds as follows:

If there is a deficiency in amounts required to pay interest and/or principal on the Bonds, the Trustee shall (i) execute and deliver to the 2019 Insurer, in form satisfactory to the 2019 Insurer, an instrument appointing the 2019 Insurer as agent and attorney-in-fact for such holders of the Bonds in any legal proceeding related to the payment and assignment to the 2019 Insurer of the claims for interest on the Bonds, (ii) segregate all payments received by the Trustee under the 2019 Insurance Policy in a separate account (the "2019 BAM Policy Payment Account") to only be used to make scheduled payments of principal of and interest on the Bonds, and (iii) disburse the same to such respective holders; and

If there is a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (i) execute and deliver to the 2019 Insurer, in form satisfactory to the 2019 Insurer, an instrument appointing the 2019 Insurer as agent and attorney-in-fact for such holder of the Bonds in any legal proceeding related to the payment of such principal and an assignment to the 2019 Insurer of the Bonds surrendered to the 2019 Insurer, (ii) segregate all payments received by the Trustee under the 2019 Insurance Policy in the 2019 BAM Policy Payment Account to only be used to make scheduled payments of principal of and interest, and (iii) disburse the same to such holders.

The Trustee shall designate any portion of payment of principal on Bonds paid by the 2019 Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current holder, whether DTC or its nominee or otherwise, and shall issue a replacement 2019 Bond to the 2019 Insurer, registered in the name directed by the 2019 Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement 2019 Bond shall have no effect on the amount of principal or interest payable by the Successor Agency on any 2019 Bond or the subrogation or assignment rights of the 2019 Insurer.

Payments with respect to claims for interest on and principal of Bonds disbursed by the Trustee from proceeds of the 2019 Insurance Policy shall not be considered to discharge the obligation of the Successor Agency with respect to such Bonds, and the 2019 Insurer shall become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the Indenture described in the preceding paragraphs or otherwise.

Irrespective of whether any such assignment is executed and delivered, the Successor Agency and the Trustee agree for the benefit of the 2019 Insurer that: (a) they recognize that to the extent the 2019 Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Bonds, the 2019 Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Successor Agency, with interest thereon, as provided and solely from the sources stated in the Indenture and the Bonds; and (b) they will accordingly pay to the 2019 Insurer the amount of such principal and interest, with interest thereon as provided in the Indenture and the Bonds, but only from the sources and in the manner provided therein for the payment of principal of and interest on the Bonds to holders, and will otherwise treat the 2019 Insurer as the owner of such rights to the amount of such principal and interest.

The Successor Agency agrees unconditionally that it will pay or reimburse the 2019 Insurer on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that the 2019 Insurer may pay or incur, including, but not limited to, fees and expenses of the 2019 Insurer's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Indenture ("Administrative Costs"). For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of the 2019 Insurer spent in connection with the actions described in the preceding sentence. The Successor Agency agrees that failure to pay any Administrative Costs on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to the 2019 Insurer until the date the 2019 Insurer is paid in full.

Notwithstanding anything in the Indenture to the contrary, the Successor Agency agrees to pay to the 2019 Insurer (i) a sum equal to the total of all amounts paid by the 2019 Insurer under the 2019 Insurance Policy (the “2019 Insurer Policy Payment”); and (ii) interest on such 2019 Insurer Policy Payments from the date paid by the 2019 Insurer until payment thereof in full by the Successor Agency, payable to the 2019 Insurer at the Late Payment Rate per annum (collectively, the “2019 Insurer Reimbursement Amounts”) compounded semi-annually. The Successor Agency covenants and agrees that the 2019 Insurer Reimbursement Amounts are payable from and secured by a lien on and pledge of the same revenues and other collateral pledged to the Bonds on a parity with debt service due on the Bonds.

The rights granted to the 2019 Insurer under the Indenture to request, consent to or direct any action are rights granted to the 2019 Insurer in consideration of its issuance of the 2019 Insurance Policy. Any exercise by the 2019 Insurer of such rights is merely an exercise of the 2019 Insurer’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the holders of the Bonds and such action does not evidence any position of the 2019 Insurer, affirmative or negative, as to whether the consent of the holders of the Bonds or any other person is required in addition to the consent of the 2019 Insurer.

The 2019 Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Successor Agency (as such terms are defined in the 2019 Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the 2019 Insurer has received a claim upon the 2019 Insurance Policy.

The Successor Agency will provide the 2019 Insurer with all notices and other information it is obligated to provide (i) under its Continuing Disclosure Certificate and (ii) to the holders of Bonds or the Trustee under the Indenture.

Provisions Relating to 2019 Reserve Policy. Notwithstanding any other provision in the Indenture to the contrary, so long as the 2019 Reserve Policy is in effect, the Successor Agency and the Trustee agree to comply with the following:

(a) The Successor Agency shall repay any draws under the 2019 Reserve Policy and pay all related reasonable expenses incurred by the 2019 Insurer and shall pay interest on such draws and expenses from the date of payment by the 2019 Insurer at the Late Payment Rate.

(b) Payment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the “Policy Costs”) shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(c) Amounts in respect of Policy Costs paid to the 2019 Insurer shall be credited first to interest due, then to the expenses due and then to principal (the amount drawn under the 2019 Reserve Policy) due. As and to the extent that payments are made to the 2019 Insurer on account of principal due, the coverage under the 2019 Reserve Policy will be increased by a like amount, subject to the terms of the 2019 Reserve Policy.

(d) All cash and investments in the Reserve Account, if any, shall be transferred to the Debt Service Fund for payment of principal (and sinking account payments) of and interest on the Bonds before any drawing may be made on the 2019 Reserve Policy or any other alternate reserve account security (each, a “Credit Facility”). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the 2019 Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Account. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Account. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(e) If the Successor Agency shall fail to pay any Policy Costs in accordance with the requirements of the Indenture described above, the 2019 Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture, other than: (i) acceleration of the maturity of the Bonds; or (ii) remedies which would adversely affect Owners of the Bonds. The Indenture shall not be discharged until all Policy Costs owing to the 2019 Insurer shall have been paid in full. The Successor Agency's obligation to pay such amounts shall expressly survive payment in full of the Bonds. The Trustee shall ascertain the necessity for a claim upon the 2019 Reserve Policy in accordance with the provisions of this section and provide notice to the 2019 Insurer in accordance with the terms of the 2019 Reserve Policy at least three (3) Business Days prior to each date upon which interest or principal (or sinking account payment) is due on the Bonds. The 2019 Reserve Policy shall expire on the earlier of the date the Bonds are no longer Outstanding or the final maturity of the Bonds.

In order to secure the Successor Agency's payment obligations with respect to the Policy Costs, there is granted and perfected in favor of the 2019 Insurer a security interest (subordinate only to that of the owners of the Bonds) in all revenues and collateral pledged as security for the Bonds.

OTHER COVENANTS OF THE SUCCESSOR AGENCY

Covenants of the Successor Agency. As long as the Bonds and Existing Parity Bonds are outstanding and unpaid, the Successor Agency shall (through its proper members, officers, agents or employees) faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture and the Existing Parity Bonds Indenture or in any Bond or Existing Parity Bond issued thereunder, including the following covenants and agreements for the benefit of the Bondowners which are necessary, convenient and desirable to secure the Bonds, Existing Parity Bonds and Additional Parity Bonds and will tend to make them more marketable; provided, however, that the covenants do not require the Successor Agency to expend any funds other than the Pledged Tax Revenues:

Covenant 1. Use of Proceeds. The Successor Agency covenants and agrees that the proceeds of the sale of the Bonds will be deposited and used as provided in the Indenture.

Covenant 2. No Priority. The Successor Agency covenants and agrees that it will not issue any obligations payable, either as to principal or interest, from the Pledged Tax Revenues which have any lien upon the Pledged Tax Revenues prior or superior to the lien of the Bonds and Existing Parity Bonds. Except as permitted by the Indenture, it will not issue any obligations, payable as to principal or interest, from the Pledged Tax Revenues, which have any lien upon the Pledged Tax Revenues on a parity with the Bonds authorized in the Indenture and Existing Parity Bonds. Notwithstanding the foregoing, nothing in the Indenture and the Existing Parity Bonds Indenture shall prevent the Successor Agency (i) from issuing and selling pursuant to law, refunding obligations payable from and having any lawful lien upon the Pledged Tax Revenues, if such refunding obligations are issued for the purpose of, and are sufficient for the purpose of, refunding all of the Outstanding Bonds and Existing Parity Bonds, (ii) from issuing and selling obligations which have, or purport to have, any lien upon the Pledged Tax Revenues which is junior to the Bonds or (iii) from issuing and selling bonds or other obligations which are payable in whole or in part from sources other than the Pledged Tax Revenues. As used in the Indenture "obligations" includes, without limitation, bonds, notes, interim certificates, debentures or other obligations.

Covenant 3. Punctual Payment. The Successor Agency covenants and agrees that it will duly and punctually pay or cause to be paid the principal of and interest on each of the Bonds and Existing Parity Bonds on the date, at the place and in the manner provided in the Bonds and Existing Parity Bonds, and that it will take all actions required under the Dissolution Act to include scheduled debt service on the Bonds and Existing Parity Bonds, as well as any amount required under the Indenture to replenish the Reserve Account of the Debt Service Fund, in Recognized Obligation Payment Schedules for each six-month period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Successor Agency's Redevelopment Obligation Retirement Fund on each January 2 and February 1 amounts required for the Successor Agency to pay principal of, and interest on, the Bonds and the Existing Parity Bonds coming due in the respective six-month period, including, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and State Department of Finance, to the extent necessary, the amounts to be

held by the Successor Agency as a reserve until the next six-month period, as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to provide for the payment of principal and interest under the Existing Parity Bonds Indenture and under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Existing Parity Bonds Indenture and the Indenture and for the next payment due thereunder and under the Indenture in the following six-month period.

Covenant 4. Payment of Taxes and Other Charges. The Successor Agency covenants and agrees that it will from time to time pay and discharge, or cause to be paid and discharged, all payments in lieu of taxes, service charges, assessments or other governmental charges which may lawfully be imposed upon the Successor Agency or any of the properties then owned by it in the Project Area, or upon the revenues and income therefrom, and will pay all lawful claims for labor, materials and supplies which if unpaid might become a lien or charge upon any of the properties, revenues or income or which might impair the security of the Bonds and Existing Parity Bonds or the use of Pledged Tax Revenues or other legally available funds to pay the principal of and interest on the Bonds and Existing Parity Bonds, all to the end that the priority and security of the Bonds and Existing Parity Bonds shall be preserved; provided, however, that nothing in this covenant shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of the payment.

Covenant 5. Books and Accounts; Financial Statements. The Successor Agency covenants and agrees that it will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries shall be made of all transactions relating to the Redevelopment Project and the Pledged Tax Revenues and other funds relating to the Project Area. The Successor Agency will prepare within one hundred eighty days after the close of each of its Fiscal Years a postaudit of the financial statement or transactions and records of the Successor Agency for the Fiscal Year, to be made by an Independent Certified Public Accountant appointed by the Successor Agency, and will furnish a copy of the postaudit to the 2019 Insurer and any other Insurer, the Trustee and any rating agency which maintains a rating on the Bonds, and, upon written request, to any Bondowner.

The Successor Agency further agrees, consents and will cooperate in good faith to provide information reasonably requested by the 2019 Insurer and will further provide appropriately designated individuals and officers to discuss the affairs, finances and accounts of the Successor Agency or any other matter as the 2019 Insurer may reasonably request.

Covenant 6. Eminent Domain Proceeds. The Successor Agency covenants and agrees that if all or any part of the Redevelopment Project Area should be taken from it without its consent, by eminent domain proceedings or other proceedings authorized by law, for any public or other use under which the property will be tax exempt, it shall take all steps necessary to adjust accordingly the base year property tax roll of the Project Area.

Covenant 7. Protection of Security and Rights of Bondowners. The Successor Agency covenants and agrees to preserve and protect the security of the Bonds and the rights of the Bondowners and to contest by court action or otherwise (a) the assertion by any officer of any government unit or any other person whatsoever against the Successor Agency that (i) the Law is unconstitutional or (ii) that the Pledged Tax Revenues pledged under the Indenture cannot be paid to the Successor Agency for the debt service on the Bonds or (b) any other action affecting the validity of the Bonds or diluting the security therefor, including, with respect to the Pledged Tax Revenues, the senior lien position of the Bonds to the Pass-Through Agreements, if any.

Covenant 8. Tax Covenants. The Successor Agency covenants and agrees to contest by court action or otherwise any assertion by the United States of America or any departments or agency thereof that the interest received by the 2019A Bondowners is includable in gross income of the recipient under federal income tax laws on the date of issuance of the 2019A Bonds. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest with respect to the 2019A Bonds will not be adversely affected for federal income tax purposes, the Successor Agency covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

Private Activity. The Successor Agency will take no action or refrain from taking any action or make any use of the proceeds of the 2019A Bonds or of any other monies or property which

would cause the 2019A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

Arbitrage. The Successor Agency will make no use of the proceeds of the 2019A Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2019A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

Federal Guaranty. The Successor Agency will make no use of the proceeds of the 2019A Bonds or take or omit to take any action that would cause the 2019A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

Information Reporting. The Successor Agency will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

Hedge Bonds. The Successor Agency will make no use of the proceeds of the 2019A Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either any 2019A Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the Successor Agency takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2019A Bonds for federal income tax purposes; and

Miscellaneous. The Successor Agency will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the Successor Agency in connection with each issuance of 2019A Bonds and Existing Parity Bonds, to the extent applicable, and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture.

Covenant 9. Compliance with Dissolution Act. The Successor Agency shall comply with all of the requirements of the Dissolution Act. The Successor Agency shall take all actions required under the Dissolution Act to prepare and file Recognized Obligation Payment Schedules so as to enable the San Diego County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund all amounts as shall be required to enable the Successor Agency to pay timely principal of, and interest on, the Bonds and all outstanding Parity Bonds coming due in such Bond Year.

Without limiting the generality of the foregoing paragraph, the Successor Agency will take all actions required under the Dissolution Act to include on the Recognized Obligation Payment Schedules for each Semiannual Period all payments to the Trustee to satisfy the requirements of the Indenture and the Existing Parity Bonds Indenture, including any amounts required to replenish the applicable Reserve Account established for the Bonds and the Existing Parity Bonds. In addition, the Successor Agency will take all actions required under the Dissolution Act to include scheduled debt service on the Bonds and the Existing Parity Bonds, as well as any amount required to replenish the respective reserve accounts established for the Bonds and the Existing Parity Bonds and amounts due to any Insurer under the Indenture or under an insurance or surety bond agreement, in Recognized Obligation Payment Schedules for each Semiannual Period so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund to the Redevelopment Obligation Retirement Fund on each January 2 and June 1, the amounts required to be transferred to the Trustee to pay principal of and interest on the Bonds, the Existing Parity Bonds and any Additional Parity Bonds coming due in the calendar year. These actions will include, without limitation, placing on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and the California Department of Finance, to the extent required, the amounts to be held by the Successor Agency as a reserve until the next Semiannual Period that are required to provide for the payment of principal of and interest on the Bonds, the Existing Parity Bonds and any Additional Parity Bonds. Further, to the extent that any subordinated pass-through amounts are necessary to pay debt service on the Bonds, the Existing Parity Bonds and any Additional Parity Bonds, the Successor Agency covenants to comply with the requirements of Health & Safety Code Section 34183(b) to ensure that the subordinated pass-through amounts are paid to the Successor Agency.

With regard to each Semiannual Period ending on June 30 of a calendar year, the Agency shall include in the Recognized Obligation Payment Schedule for such Semiannual Period an amount which is at least equal to the sum of (a) the full amount of principal and interest on the Bonds and the Existing Parity Bonds coming due and payable on the succeeding February 1 and August 1.

In the event the Successor Agency fails to provide the Oversight Board or the Department of Finance with a Recognized Obligation Payment Schedule by the statutory deadlines, the Successor Agency designates the 2019 Insurer as its attorney-in-fact with the power to make such a request relating to the Bonds; provided however, that the 2019 Insurer will provide a copy of such request to the Successor Agency prior to such submission. With respect to Recognized Obligation Payment Schedules, if any amounts payable to the 2019 Insurer are not included on the then current Recognized Obligation Payment Schedule, the Successor Agency shall amend such Recognized Obligation Payment Schedule to the extent permitted by law.

Covenant 10. Further Assurances. The Successor Agency covenants and agrees to 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 Owners of the rights and benefits provided in the Indenture.

Covenant 11. Continuing Disclosure. The Successor Agency covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Successor Agency to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any participating underwriter, holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Covenant 12. Last and Final Recognized Obligation Payment Schedule. As long as the Bonds are Outstanding and the 2019 Insurer is not in default under the 2019 Reserve Policy or the 2019 Insurance Policy, the Successor Agency will not submit to the Oversight Board or the Department of Finance a request for the final amendment permitted for its Last and Final Recognized Obligation Payment Schedule pursuant to Section 34191.6 of the California Health and Safety Code without the prior written consent of the 2019 Insurer, unless all amounts that could become due and payable to the 2019 Insurer under the Indenture would be included as a line item on the last and final Recognized Obligation Payment Schedule following approval of the requested final amendment.

Covenant 13. Meet and Confer; Recognized Obligation Payment Schedule. The Successor Agency shall provide the 2019 Insurer with copies of all Recognized Obligation Payment Schedules submitted and any and all correspondence received from the Department of Finance relating to or which could affect payments on the Bonds upon receipt, except for requests for copies of agreements or other supporting documentation by the Department of Finance to support a Recognized Obligation Payment Schedule submitted by the Successor Agency. Documents posted by the Department of Finance under their existing procedures on the Department of Finance website shall meet this requirement. In the event that the Successor Agency is a party to a meet and confer with the Department of Finance that relates to the payment of debt service on or security for the Bonds or Policy Costs, the Successor Agency shall notify the 2019 Insurer and, if the subject of the meet and confer could prevent timely payment of or impair the security for the Bonds or Policy Costs, the 2019 Insurer shall have the right to participate in the meet and confer process either by appearance with the Successor Agency at the meet and confer or through written submission as the Insurer determines in its discretion. In the event the Successor Agency receives a Recognized Obligation Payment Schedule denial, whether relating to the Bonds or not, and such denial could prevent timely and full payment of debt service on the Bonds, the Successor Agency agrees to cooperate in good faith with the 2019 Insurer and the 2019 Insurer shall receive prompt notice of any such event and shall be permitted to attend any meetings with the Successor Agency and the Department of Finance and to discuss such matters with the Department of Finance directly.

THE TRUSTEE

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to the occurrence of an Event of Default, and after the curing or waiver 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 shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Successor Agency may remove the Trustee at any time, but only with the consent of all Insurers, unless an Event of Default shall have occurred and then be continuing, 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 the Successor Agency has knowledge that the Trustee has ceased to be eligible in accordance with the provisions of the indenture described in paragraph (e), below, or has become incapable of acting, or has been adjudged as bankrupt or insolvent, or a receiver of the Trustee or its property has been appointed, or any public officer shall have taken control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation. In each case such removal shall be accomplished by the giving of written notice of such removal by the Successor Agency to the Trustee, with a copy to any Insurer, whereupon the Successor Agency shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving prior written notice of such resignation to the Successor Agency, and by giving the Owners and any Insurer notice of such resignation by first class mail, postage prepaid, at their respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the Successor Agency shall promptly appoint a successor Trustee by an instrument in writing, with notice of such appointment to be furnish to any Insurer.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the Successor Agency and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Written Request of the Successor Agency 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 in the Indenture set forth. Upon request of the successor Trustee, the Successor Agency shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in the Indenture, the Successor Agency shall mail, with a copy to the Successor Trustee, a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which then has a current rating on the Bonds and to the Owners at their respective addresses shown on the Registration Books. If the Successor Agency 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 Successor Agency. Notwithstanding any other provisions of the Indenture, no removal, resignation or termination of the Trustee shall take effect until a successor shall be appointed.

Every successor Trustee appointed under the provisions of the Indenture shall be a trust company or bank in good standing authorized to exercise trust powers or having the powers of a trust company and duly authorized to exercise trust powers within the State having a combined capital and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture described in this paragraph (e), the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

The Trustee shall have no responsibility or liability with respect to any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds.

Before taking any action described above or under the caption "EVENTS OF DEFAULT AND REMEDIES OF OWNERS" at the request or direction of the Owners or any Insurer, the Trustee may require that an indemnity bond satisfactory to the Trustee be furnished by the Owners or any Insurer for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or its willful misconduct in connection with any action so taken.

Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which either of them may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible under the Indenture, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Liability of Trustee.

(a) The recitals of facts in the Indenture and in the Bonds contained shall be taken as statements of the Successor Agency, and the Trustee shall not assume responsibility for the correctness of the same, nor make any representations as to the validity or sufficiency of the Indenture or of the Bonds nor shall incur any responsibility in respect thereof, other than as expressly stated in the Indenture. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of any 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 shall not be liable for any error of judgment made in good faith by a responsible officer, unless the Trustee shall have been negligent in ascertaining the pertinent facts.

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

The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture, 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 shall not be deemed to have knowledge of any Event of Default under the Indenture unless and until it shall have actual knowledge thereof, or shall have received written notice thereof at its Trust 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 thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be responsible for reviewing the contents of any financial statements furnished to the Trustee and may rely conclusively on the certificates accompanying such financial statements to establish the Successor Agency's compliance with its financial covenants under the Indenture, including, without limitation, its covenants regarding the deposit of Tax Revenues into the Redevelopment Obligation Retirement Fund and the investment and application of moneys on deposit in the Redevelopment Obligation Retirement Fund (other than its covenants to transfer such moneys to the Trustee when due under the Indenture).

No provision in the Indenture shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability under the Indenture.

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

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

Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, 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, in the absence of negligence or willful misconduct by the Trustee. The Trustee may consult with counsel, including, without limitation, counsel of or to the Successor Agency, with regard to legal questions, and, in the absence of negligence or willful misconduct by the Trustee, 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 shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto is established to the satisfaction of the Trustee.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may be deemed to be conclusively proved and established by a Written Certificate of the Successor Agency, which shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may deem reasonable. The Trustee may conclusively rely on any certificate of report of any Independent Accountant or Independent Redevelopment Consultant appointed by the Successor Agency.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times during regular business hours upon reasonable notice to the inspection of the Successor Agency, any Insurer and any Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Compensation and Indemnification. The Successor Agency shall pay to the Trustee from time to time reasonable compensation for all services rendered under the Indenture and also all reasonable expenses, charges,

legal and consulting fees and other disbursements and those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under the Indenture. Upon the occurrence of an Event of Default, the Trustee shall have a first lien on the Tax 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 reasonable compensation to its experts, attorneys and counsel incurred in declaring such Event of Default and in exercising the rights and remedies described under the caption "EVENTS OF DEFAULT AND REMEDIES OF OWNERS."

The Successor Agency further covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense, and liabilities 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 and those of its attorneys and advisors of defending against any claim of liability, 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. The obligations of the Successor Agency described above shall survive resignation or removal of the Trustee under the Indenture and payment of the Bonds and discharge of the Indenture.

Investment of Moneys in Funds and Accounts. Subject to the provisions of the Indenture, all moneys held by the Trustee in the Debt Service Fund, Costs of Issuance Fund, the Reserve Account, the Redemption Account or the Rebate Fund, shall, at the written direction of the Successor Agency, be invested only in Permitted Investments. If the Trustee receives no written directions from the Successor Agency as to the investment of moneys held in any Fund or Account, the Trustee shall request such written direction from the Successor Agency and, pending receipt of instructions, shall invest such moneys solely in Permitted Investments described in subsection (b)(5) of the definition thereof.

(a) Moneys in the Redevelopment Obligation Retirement Fund shall be invested by the Successor Agency only in obligations permitted by the Law which will by their terms mature not later than the date the Successor Agency estimates the moneys represented by the particular investment will be needed for withdrawal from the Redevelopment Obligation Retirement Fund.

Moneys in the Interest Account, the Principal Account and the Redemption Account of the Debt Service Fund shall be invested only in obligations which will by their terms mature on such dates as to ensure that before each interest and principal payment date, there will be in such account, from matured obligations and other moneys already in such account, cash equal to the interest and principal payable on such payment date.

Moneys in the Reserve Account shall be invested in (i) obligations which will by their terms mature on or before the date of the final maturity of the Bonds or five (5) years from the date of investment, whichever is earlier or (ii) an investment agreement which permits withdrawals or deposits without penalty at such time as such moneys will be needed or in order to replenish the Reserve Account.

Moneys in the Rebate Fund shall be invested in Defeasance Securities which mature on or before the date such amounts are required to be paid to the United States.

Obligations purchased as an investment of moneys in any of the Funds or Accounts shall be deemed at all times to be a part of such respective Fund or Account and the interest accruing thereon and any gain realized from an investment shall be credited to such Fund or Account and any loss resulting from any authorized investment shall be charged to such Fund or Account without liability to the Trustee. The Successor Agency or the Trustee, as the case may be, shall sell or present for redemption any obligation purchased whenever it shall be necessary to do so in order to provide moneys to meet any payment or transfer from such Fund or Account as required by the Indenture and shall incur no liability for any loss realized upon such a sale. All interest earnings received on any monies invested in the Interest Account, Principal Account, Redemption Account or Reserve Account, to the extent they exceed the amount required to be in such Account, shall be transferred on each Interest Payment Date to the Debt Service Fund. All interest earnings on monies invested in the Rebate Fund shall be retained in such Fund and applied as set forth in the Indenture. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Indenture. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Indenture. The Successor Agency acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Successor Agency the right to receive brokerage confirmations of security transactions as they occur, the

Successor Agency specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Successor Agency periodic cash transaction statements which shall 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.

The value of Permitted Investments shall be determined as follows: (i) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; (ii) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service; (iii) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and (iv) as to any investment not specified above: the value thereof established by prior agreement between the Successor Agency and the Trustee. If more than one provision of this definition of "value" shall apply at any time to any particular investment, the value thereof at such time shall be determined in accordance with the provision establishing the lowest value for such investment; provided, notwithstanding the foregoing, in making any valuations under the Indenture, the Trustee may utilize and conclusively rely upon such pricing services as may be regularly available to it, including, without limitation, those within its regular accounting system.

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 held by it established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Successor Agency and any Insurer at reasonable hours and under reasonable circumstances with reasonable prior notice. The Trustee shall furnish to the Successor Agency, at least quarterly, an accounting of all transactions in the form of its regular account statements relating to the proceeds of the Bonds and all funds and accounts held by the Trustee pursuant to the Indenture.

Appointment of Co-Trustee or Agent. It is the purpose of the Indenture that there shall be no violation of any law of any jurisdiction (including particularly the law of the State) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under the Indenture, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies in the Indenture granted to the Trustee or hold title to the properties, in trust, as in the Indenture granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee or Successor Agency appoint an additional individual or institution as a separate co-trustee. The following provisions of the Indenture are adopted to these ends.

In the event that the Trustee or Successor Agency appoint an additional individual or institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by the Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee to exercise such powers, rights and remedies, and every covenant an obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them.

Should any instrument in writing from the Successor Agency be required by the separate trustee or co-trustee so appointed by the Trustee or Successor Agency for more fully and certainly vesting in and confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Successor Agency. In case any separate trustee or co-trustee, or a successor to either, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

In addition to the appointment of a co-trustee under the Indenture, the Trustee may, at the expense and with the prior written consent of the Successor Agency, appoint any agent of the Trustee in New York, New York, for the purpose of administering the transfers or exchanges of Bonds or for the performance of any other responsibilities of the Trustee under the Indenture.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendment Without Consent of Owners. The Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption, without the prior written consent of the Owners or any Insurer, to the extent permitted by law and any for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Successor Agency in the Indenture contained, 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 Successor Agency; or

to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Successor Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners; or

to provide the issuance of Additional Parity Bonds, and to provide the terms and conditions under which such Additional Parity Bonds may be issued, including but not limited to the establishment of Redevelopment Obligation Retirement Funds and accounts relating thereto and any other provisions relating solely thereto, subject to and in accordance with the Indenture; or

to amend any provision of the Indenture relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any of the 2019A Bonds, in the opinion of nationally-recognized bond counsel.

Amendment With Consent of Owners. Except as set forth in the Indenture, the Indenture and the Existing Parity Bonds Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of each Insurer (but only with respect to any Bonds insured by such Insurer) and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Successor Agency to pay the principal, interest or redemption premiums (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of any Insurer or the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties to the Indenture 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.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any amendment or modification of the Indenture, the Successor Agency may, with the prior written consent of any Insurer, determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the Successor Agency, as to such amendment or modification and in that case upon demand of the Successor Agency, the Owners of such Bonds shall present such Bonds for that purpose at the Trust Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the Successor Agency may determine that new

Bonds shall be prepared and executed in exchange for any or all of the Bonds and, in that case upon demand of the Successor Agency, the Owners of the Bonds shall present such Bonds for exchange at the Trust Office of the Trustee, without cost to such Owners.

Amendment by Mutual Consent. The provisions of the Indenture described above shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner, provided that due notation thereof is made on such Bond and, provided further, that written consent to such amendment shall first be obtained from any Insurer.

Opinion of Counsel. The Trustee shall be provided an opinion of counsel that any such Amendment or Supplemental Indenture entered into by the Successor Agency and the Trustee complies with the provisions of the Indenture described above and the Trustee may conclusively rely upon such opinion.

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Events of Default and Acceleration of Maturities. The following events shall constitute “Events of Default” under the Indenture:

(a) if default shall be made in the due and punctual payment of the principal of or interest or redemption premium (if any) on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

if default shall be made by the Successor Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of 30 days following receipt by the Successor Agency of written notice from the Trustee, any Insurer or any Owner of the occurrence of such default; or

if the Successor Agency shall commence a voluntary action under Title 11 of the United States Code or any substitute or successor statute.

If an Event of Default has occurred and is continuing, the Trustee may, with the consent of the 2019 Insurer, and, if requested in writing by the Owners of the majority in aggregate principal amount of the Bonds then Outstanding, the Trustee shall, by written notice to the Successor Agency, (a) 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 shall become immediately due and payable, and (b) upon receipt of indemnity to its satisfaction exercise any other remedies available to the Trustee and the Owners in law or at equity.

Immediately upon becoming aware of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to each Insurer and the Successor Agency by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion may, also give such notice to the Successor Agency, and the Owners in the same manner as provided in the Indenture for notices of redemption of the Bonds, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal and any accrued, but unpaid interest on the Bonds is actually paid on such date.)

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Successor Agency shall deposit 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 (to the extent permitted by law) at the net effective rate then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee, including but not limited to attorneys fees, 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) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have 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 Successor Agency 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 shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Upon the occurrence of an event of default, the Trustee may, with the consent of a majority of the Owners, by written notice to the Successor Agency, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture in the Bonds to the contrary notwithstanding.

Application of Funds Upon Acceleration. All of the Pledged Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration as provided in the Indenture, and all sums thereafter received by the Trustee under the Indenture, shall be applied by the Trustee in the order following, upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture, including reasonable compensation to its agents, attorneys and counsel including all sums owed to the Trustee pursuant to the Indenture;

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the net effective rate then borne by the Outstanding Bonds (to the extent that such interest on overdue installments of principal and interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest or any Bond over any other Bond; and

Third, to the payment of amounts required to restore the Reserve Account to the share of the Reserve Requirement applicable to the Bonds and to repay any amounts owed to the 2019 Insurer in connection with a draw on the 2019 Reserve Policy.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have 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; provided, however, that the Trustee shall 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 Owner's Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee and any Insurer 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 shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall 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 shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, 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 shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any provisions of the Indenture shall be instituted, had and maintained in the manner in the Indenture 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 in the Indenture provided, shall not be impaired or affected without the written consent of such Owner, notwithstanding the provisions of the Indenture.

Non-waiver. Nothing in the Indenture or in the Bonds, shall affect or impair the obligation of the Successor Agency, which is absolute and unconditional, to pay from the Pledged Tax Revenues and other amounts pledged under the Indenture, the principal of and interest and redemption premium (if any) on the Bonds to the respective Owners on the respective Interest Payment Dates, as in the Indenture provided, or affect or impair the right of action, which is also absolute and unconditional, of the 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 shall 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 Dissolution Act or 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 shall be abandoned or determined adversely to the Owners, the Successor Agency and the Owners shall 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 shall have 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 (and the successive respective Owners by taking and holding the Bonds or additional parity bonds, as applicable, 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, provided the Trustee shall have no duty or obligation to enforce any such right or remedy if it has not been indemnified to its satisfaction from loss, liability or any expense including, but not limited to reasonable fees and expenses of its attorneys.

Remedies Not Exclusive. No remedy in the Indenture 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 later existing, at law or in equity by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

Rights of 2019 Insurer. Any reorganization or liquidation plan with respect to the Successor Agency must be acceptable to the 2019 Insurer. In the event of any reorganization or liquidation of the Successor Agency, the 2019 Insurer shall have the right to vote on behalf of all holders of the Bonds absent a continuing failure by the 2019 Insurer to make a payment under the 2019 Insurance Policy.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the 2019 Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Bonds or the Trustee for the benefit of the holders of the Bonds under the Indenture. No Event of Default may be waived without the 2019 Insurer's written consent. Further, in the event of an Event of Default with respect to the Bonds, the 2019 Insurer shall have the right to direct the replacement of the Trustee.

2019 Insurer as Owner. Upon the occurrence and continuance of an Event of Default, the 2019 Insurer shall be deemed to be the sole owner of the Bonds for all purposes under the Indenture, including, without limitations, for purposes of exercising remedies and approving amendments.

Special Provisions for 2019 Insurer Default. If a 2019 Insurer Default shall occur and be continuing, then, notwithstanding anything in the Indenture to the contrary, (1) if at any time prior to or following a 2019 Insurer Default, the 2019 Insurer has made payment under the 2019 Insurance Policy, to the extent of such payment the 2019 Insurer shall be treated like any other holder of the Bonds, for all purposes, including giving of consents, and (2) if the 2019 Insurer has not made any payment under the 2019 Insurance Policy, the 2019 Insurer shall have no further consent rights until the particular 2019 Insurer Default is no longer continuing or the 2019 Insurer makes a payment under the 2019 Insurance Policy, in which event, the foregoing clause (1) shall control. For purposes of the provisions of the Indenture described in this paragraph, "2019 Insurer Default" means: (A) the 2019 Insurer has failed to make any payment under the 2019 Insurance Policy when due and owing in accordance with its terms; or (B) the 2019 Insurer shall (i) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (ii) consent to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a substantial part of its property, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take action for the purpose of effecting any of the foregoing; or (C) any state or federal agency or instrumentality shall order the suspension of payments on the 2019 Insurance Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the 2019 Insurer (including without limitation under the New York Insurance Law).

MISCELLANEOUS

Benefits Limited to Parties. Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Successor Agency, each Insurer, the Trustee, and the registered Owners of the Bonds, any right, remedy or claim under or by reason of the Indenture or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the Successor Agency shall be for the sole and exclusive benefit of the Successor Agency, each Insurer, the Trustee, and the registered Owners of the Bonds.

Successor is Deemed Included in All References to Predecessor. Whenever in the Indenture or any Supplemental Indenture either the Successor Agency or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the Successor Agency or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Discharge of Indenture.

(a) If the Successor Agency shall pay and discharge the entire indebtedness on all Bonds or any portion thereof in any one or more of the following ways:

by well and truly paying or causing to be paid the principal of and interest and premium (if any) on all Outstanding Bonds, including all principal, interest and redemption premiums, (if any), or;

by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the

Indenture, is fully sufficient to pay all Outstanding Bonds, including all principal, interest and redemption premiums (if any), or,

by irrevocably depositing with the Trustee, in trust, Defeasance Securities in such amount as an Independent Certified Public Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums, if any) at or before maturity, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice then, at the election of the Successor Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Pledged Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Successor Agency under the Indenture with respect to all Outstanding 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 Successor Agency to pay or cause to be paid to the Owners (or any Insurer), from the amounts so deposited with the Trustee, all sums due thereon; and (c) to pay the Trustee and any Insurer) all fees, expenses and costs of the Trustee and any Insurer. Notice of such election shall be filed with the Trustee. Any funds thereafter held by the Trustee, which are not required for said purpose, shall be paid over to the Successor Agency.

The Bonds shall be deemed to be Outstanding under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

To the extent that any of the Bonds to be defeased are insured by the 2019 Insurer, at least three Business Days prior to any defeasance, the Successor Agency shall deliver to the 2019 Insurer draft copies of an escrow agreement, an opinion of Bond Counsel regarding the validity and enforceability of the escrow agreement and the defeasance of such Bonds, and a verification report (a "Verification Report") prepared by an Independent Certified Public Accountant regarding the sufficiency of the escrow fund. Such opinion and Verification Report shall be addressed to such Insurer and shall be in form and substance satisfactory to the 2019 Insurer. In addition, the escrow agreement shall provide that: a) any substitution of securities shall require the delivery of a verification report, and b) the Successor Agency shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of such Insurer.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal and/or interest due on the Bonds is paid by any Insurer, such Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Successor Agency, and the assignment and pledge of the Pledged Tax Revenues and other assets under the Indenture and all covenants, agreements and other obligations of the Successor Agency to the Bondowners so paid shall continue to exist and shall run to the benefit of such Insurer, and such Insurer shall be subrogated to the rights of such Bondowners, as applicable.

Execution of Documents and Proof of Ownership by Owners. Any request, declaration or other instrument which the Indenture may require or permit to be executed by any Owner may be in one or more instruments of similar tenor, and shall be executed by such Owner in person or by their attorneys appointed in writing.

Except as otherwise in the Indenture expressly provided, the fact and date of the execution by any Owner or his attorney of such request, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

The ownership of Bonds and the amount, maturity, number and date of ownership thereof shall be provided by the Registration Books.

Any request, declaration or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the Successor Agency or the Trustee in good faith and in accordance therewith.

Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned or held by or for the account of the Successor Agency or the City (but excluding Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided, however, that for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned or held shall be disregarded.

Waiver of Personal Liability. No member, office, agent or employee of the Successor Agency shall be individually or personal liable for the payment of the principal of or interest or any premium on the Bonds; but nothing contained in the Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Destruction of Canceled Bonds. Whenever in the Indenture provision is made for the surrender to the Trustee of any Bonds which have been paid or canceled pursuant to the provisions of the Indenture, the Trustee shall destroy such Bonds and upon written request of the Successor Agency, provide the Successor Agency a certificate of destruction. The Successor Agency shall be entitled to rely upon any statement of fact contained in any certificate with respect to the destruction of any such Bonds therein referred to.

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 (if any) 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 Successor Agency as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the Successor Agency for the payment of the principal of and interest and redemption premium (if any) on such Bonds.

Payments Due on Other Than a Business Day. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Indenture, is not a Business Day, such payment, with no interest accruing for the period from and after such nominal date, may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided therefore in the Indenture.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon issuance of the 2019 Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

Successor Agency to the Lemon Grove Community Development Agency
Lemon Grove, California

Dear Honorable Members of the Successor Agency:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Successor Agency to the Lemon Grove Community Development Agency (the “Agency”) taken in connection with the authorization and issuance by the Agency of the \$3,805,000 aggregate principal amount of Successor Agency to the Lemon Grove Community Development Agency Lemon Grove Redevelopment Project Area Tax Allocation Refunding Bonds, Issue of 2019A (Tax-Exempt) (the “2019A Bonds”) and the \$11,695,000 aggregate principal amount Successor Agency to the Lemon Grove Community Development Agency Lemon Grove Redevelopment Project Area Tax Allocation Refunding Bonds, Issue of 2019B (Federally Taxable) (the “2019B Bonds” and, together with the 2019A Bonds, the “Bonds”) and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the Agency, the Trustee, the Underwriter of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued by the Agency pursuant to the Constitution and laws of the State of California (the “State”), including Article 11 of Chapter 3 (Commencing with Section 53580) of Part 1 of Division 2 of Title 5 of the California Government Code (the “Bond Law”), Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the Health and Safety Code of the State of California (as amended from time to time, the “Dissolution Act”), Resolution No. 2019-01 adopted by the Agency on September 17, 2019 and Resolution No. OB-2019-023 adopted by the San Diego Countywide Redevelopment Successor Agency Oversight Board on September 19, 2019, and in accordance with an Indenture of Trust, dated as of December 1, 2019 (the “Indenture”), by and between the Agency and U.S. Bank National Association, as trustee. Capitalized terms not defined herein shall have the meanings ascribed to those terms in the Indenture.

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

(1) The Bonds have been duly and validly authorized by the Agency and are legal, valid and binding limited obligations of the Agency, enforceable in accordance with their terms and the terms of the Indenture.

(2) The Indenture has been duly executed and delivered by the Agency. The Indenture creates a valid pledge of the Pledged Tax Revenues and the amounts on deposit in certain funds and accounts established under the Indenture to secure the Bonds, as and to the extent provided in the Indenture.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the 2019A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

(4) Interest (and original issue discount) on the Bonds is exempt from State personal income tax.

(5) The difference between the issue price of a 2019A Bond (the first price at which a substantial amount of the 2019A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such 2019A Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a 2019A Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a 2019A Bond owner will increase the 2019A Bond owner's basis in the applicable 2019A Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals (as described in paragraph 3 above) and is exempt from State personal income tax.

(6) The amount by which a 2019A Bond owner's original basis for determining loss on sale or exchange in the applicable 2019A Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the bond owner's basis in the applicable 2019A Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a 2019A Bond owner realizing a taxable gain when a 2019A Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the 2019A Bond to the owner.

The opinions expressed in paragraphs (3) and (5) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the 2019A Bonds are subject to the condition that the Agency complies with all requirements of the Code that must be satisfied subsequent to the issuance of the 2019A Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the 2019A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2019A Bonds. The Agency has covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4), (5) and (6) above, we express no opinion as to any tax consequences related to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture and the Tax Certificate executed by the Agency with respect to the 2019A Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax exempt obligations. We express no opinion as to the effect on exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on any 2019A Bonds if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

With respect to the opinions expressed herein, the rights and obligations under the Indenture are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the limitations on legal remedies against public agencies in the State and to limitations on rights of indemnity by principles of public policy.

The opinions expressed herein and the exclusion of interest on the 2019A Bonds from gross income for federal income tax purposes may be affected by actions taken (or not taken) or events occurring (or not

occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement as bond counsel to the Agency terminates upon the issuance of the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

Our opinion is limited to matters governed by the laws of the State and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

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

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Agency takes no responsibility for the completeness or accuracy thereof. The Agency cannot and does not give any assurances 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 2019 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2019 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2019 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.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2019 Bonds. The 2019 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2019 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2019 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2019 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the 2019 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an

authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2019 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2019 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2019 Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 2019 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2019 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Principal, premium (if any), and interest payments on the 2019 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any), and interest payments with respect to the 2019 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2019 Bonds at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the 2019 Bonds are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the 2019 Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

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

APPENDIX E

**COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR
FISCAL YEAR ENDED JUNE 30, 2019**

**CITY OF LEMON GROVE
ANNUAL FINANCIAL REPORT**



FISCAL YEAR ENDED JUNE 30, 2019

**City of Lemon Grove
Financial Statements
June 30, 2019**

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Net Position - Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds	19
Statement of Cash Flows - Proprietary Funds	20
Statement of Net Position – Fiduciary Funds	21
Statement of Changes in Net Position – Fiduciary Funds	22
Notes to Financial Statements	23
Required Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
General Fund	49
Housing Special Revenue Fund	50
Transnet Special Revenue Fund	51
Schedule of the City's Proportionate Share of the Net Pension Liability	52
Schedule of Plan Contributions	53
Schedule of Funding Progress for OPEB	54
Notes to Required Supplementary Information	55
Supplementary Information	
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet - Nonmajor Governmental Funds	58
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	62
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual Nonmajor Governmental Funds	66
Statistical Section	
Financial Trends	84
Revenue Capacity	95
Debt Capacity	99
Demographic and Economic Information	101
Operation Information	102



Independent Auditor's Report

The Honorable City Council
City of Lemon Grove, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Lemon Grove (City), as of and for the year ended June 30, 2019, 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.

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 Lemon Grove, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required 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 an opinion on the financial statements that collectively comprise the City's basic financial statements. The schedules listed in the supplementary information section of the table of contents, and the statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules listed in the supplementary information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules listed in the supplementary information section are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedules in the statistical section 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 a report dated December 10, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Van Lant & Fankhaed, LLP

December 10, 2019

**CITY OF LEMON GROVE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

As management of the City of Lemon Grove (City) we offer readers of the City's Annual Financial Report this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements and attached notes.

FINANCIAL HIGHLIGHTS

- The assets plus deferred outflows of the City exceeded its liabilities and deferred inflows of the City by \$79.6 million (net position). Of this amount, \$15.8 million (unrestricted net position) may be used to meet the government's ongoing obligations to residents and creditors.
- The City's overall revenue was \$26.1 million compared to expenses of \$22.8 million.
- The net position value increased from the previous year by \$3.4 million, or 4.5 percent, mainly driven by an increase in assets.
- The City's governmental funds reported a combined ending fund balance of \$14.7 million, an increase from the previous year of \$1.5 million, or 11 percent.
- At the end of the current fiscal year, the General Fund unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) was \$6.3 million, or approximately 43.8% of total General Fund expenditures.
- The City's capital assets (net of depreciation) increased by \$744,000.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

A major component of the Financial Section of the City's Annual Financial Report is the Basic Financial Statements, and is comprised of three components: 1) government-wide financial statements, 2) governmental fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting, which means the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*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, public works, community services, and development services. The business-type activity of the City is the Lemon Grove Sanitation District.

Included in the government-wide financial statements are two blended component units, the Lemon Grove Sanitation District (Sanitation District) and the Lemon Grove Lighting District (Lighting District). Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. While the Sanitation District and Lighting District are legally separate agencies, their governing board consists entirely of City

Council members.

Statement of Net Position: This statement presents information on all of the City's assets and liabilities, with the difference between the two 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 deteriorating. The following schedule displays a summary of the City's statement of net position:

Comparative Statements of Position
June 30, 2019 and 2018
(In Thousands)

	Governmental Activities			Business-Type Activities			Citywide Total		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
Assets:									
Cash and investments	9,099	8,711	388	20,136	17,738	2,397	29,235	26,449	2,785
Other assets	11,654	11,273	381	323	657	(334)	11,977	11,930	47
Capital assets, net	45,231	44,605	626	7,174	7,057	117	52,405	51,662	743
Total Assets	65,984	64,589	1,395	27,633	25,452	2,180	93,617	90,041	3,576
Deferred Outflows of Resources:									
Deferred Outflows	1,962	1,949	13	453	531	(78)	2,415	2,480	(65)
Total Deferred Outflows	1,962	1,949	13	453	531	(78)	2,415	2,480	(65)
Liabilities:									
Long-term liabilities	9,855	10,150	(295)	3,310	3,095	215	13,165	13,245	(80)
Other Liabilities	2,336	2,299	37	231	127	104	2,567	2,426	141
Total Liabilities	12,191	12,449	(258)	3,541	3,222	319	15,733	15,671	61
Deferred Inflows of Resources:									
Deferred inflows	439	280	159	247	391	(144)	686	671	15
Total Deferred Inflows	439	280	159	247	391	(144)	686	671	15
Net Position:									
Net investment in capital assets	45,064	44,358	706	7,174	7,057	117	52,238	51,414	824
Restricted	11,013	11,151	(138)	554	-	554	11,567	11,151	416
Unrestricted	(761)	(1,701)	940	16,570	15,314	1,256	15,809	13,613	2,196
Total Net Position	55,316	53,808	1,508	24,298	22,371	1,927	79,614	76,179	3,435

The City's total net position increased by 4.5 percent from last year. Net position from governmental activities increased by 2.8 percent while net position from business activities increased by 8.6 percent. The City's assets exceeded its liabilities by approximately \$79.6 million.

Approximately 66 percent of the City's net position reflect its investment in capital assets (i.e., land, buildings, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Although the City's investment is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Approximately 14.5 percent of the City's net assets reflect resources that are subject to external restrictions as to how they may be used. These restrictions are typically imposed by parties outside the

government, such as creditors, grantors, and laws or regulations of other governments.

Statement of Activities: This statement presents information showing how the City's net position changed during the most recent fiscal year. All changes in position are reported as soon as the underlying events giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes, and earned but unused vacation leave). The following schedule shows condensed financial information from the statement of activities:

Comparative Statements of Activity

June 30, 2019 and 2018

(In Thousands)

	Governmental Activities			Business-Type Activities			Citywide Total		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
Revenues:									
Program revenues:									
Charges for Services	2,790	2,304	486	6,846	6,471	375	9,636	8,775	861
Operating grants & contributions	1,706	1,190	516	-	-	-	1,706	1,190	516
Capital grants & contributions	1,041	1,851	(810)	-	-	-	1,041	1,851	(810)
Total Program Revenues	5,537	5,345	192	6,846	6,471	375	12,383	11,816	567
General revenues:									
Taxes:									
General property taxes	2,861	2,643	218	-	-	-	2,861	2,643	218
Sales tax	5,992	5,430	562	-	-	-	5,992	5,430	562
Franchise tax	1,022	994	28	-	-	-	1,022	994	28
Motor Vehicle in Lieu tax	2,621	2,443	178	-	-	-	2,621	2,443	178
Other	670	170	500	547	154	393	1,217	324	893
Transfers	(23)	589	(612)	23	(589)	612	-	-	-
Total general revenues	13,143	12,269	874	570	(435)	1,005	13,713	11,834	1,879
Total Revenues	18,680	17,614	1,066	7,416	6,036	1,380	26,096	23,650	2,446
Expenses:									
General government	936	2,788	(1,852)	-	-	-	936	2,788	(1,852)
Public safety	11,255	10,703	552	-	-	-	11,255	10,703	552
Public works	4,410	3,129	1,281	-	-	-	4,410	3,129	1,281
Community development	752	767	(15)	-	-	-	752	767	(15)
Sanitation	-	-	-	5,490	4,643	847	5,490	4,643	847
Interest on long-term debt	-	-	-	-	-	-	-	-	-
Total Expenses	17,353	17,387	(34)	5,490	4,643	847	22,843	22,030	813
Change in net position	1,327	227	1,100	1,927	1,393	534	3,254	1,620	1,634
Beginning net position	53,808	56,217	(2,409)	22,371	21,942	429	76,179	78,159	(1,980)
Restatement of net position	181	(2,636)	2,817	-	(964)	964	181	(3,600)	3,781
Net Position, June 30, 2019	\$ 55,316	\$ 53,808	\$ 1,508	\$ 24,298	\$ 22,371	\$ 1,927	\$ 79,614	\$ 76,179	\$ 3,435

Governmental Activities:

The governmental activities increased the City's net position by \$1.5 million. General revenues and transfers of \$18.7 million exceed total expenditures by \$1.3 million. In addition, long-term liabilities

decreased by approximately \$300,000.

Overall, revenues for year ending June 30, 2019, increased by \$1.1 million, or 6%. The following is a list of notable changes compared to the prior year:

- ❖ Capital grants & contributions decreased by \$0.8 million due to some one-time capital grants the City received in fiscal year 2018.
- ❖ Total general revenue increased 7.1 percent, driven by a 8.2 percent increase in Property Tax revenue and a 10.3 percent increase in Sales Tax revenue. The Sales Tax increase was mainly caused by a change in the remittance timeline that sped up how quickly the City receives the revenue from the CA Department of Tax and Fee Administration.

Total expenditures decreased by \$35,000, or 0.2 percent. The following are the notable changes compared to the prior year:

- ❖ General Government decreased by \$1.9 million, or 66 percent, primarily due to a hiring freeze for vacant positions and correctly applying overhead reimbursements as reductions in expenditures rather than as transfer revenue.
- ❖ Public Safety increased by \$552,000, or 5.2 percent, due to the annual escalator in the City's contract with the San Diego County Sheriff's Department.
- ❖ Public Works increased by \$1.3 million, or 40.9 percent, due to the completion of the Lemon Grove Realignment construction project.

Business-type Activities:

The business-type activities increased the City's net position by \$1.9 million. Business-type program revenues exceeded expenditures, resulting in a 8.6 percent increase to business-type net position. Business-type long-term liability grew by \$215,000, mainly due to growth in the Sanitation District's net pension liability. Growth of \$2.1 million in business-type assets offset the increased liability, resulting in an overall increase to business-type net position. This is the twelfth year that the Lemon Grove Sanitation District has had staff to maintain the sewers, thus allowing for more control over expenditures and an enhanced ability to grow assets for future needs. The \$2.1 million increase in assets was primarily due to:

- ❖ Total revenue exceeded expenses by \$1.9 million.
- ❖ Net investment in capital assets of \$117,000, growing capital assets 1.7 percent over the prior year.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. City funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Unlike the government-wide financial statements, the 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, and offer summary information for each major fund. Such information may be useful in evaluating a government's near-term financing requirements. In particular, *unassigned fund balance* serves as a useful measure of a government's net resources available for spending at fiscal year-end.

Governmental Funds: *Governmental funds* are used to account for the functions reported as *governmental activities* in the government-wide financial statements.

As of June 30, 2019, the City's governmental funds reported a combined ending fund balance of \$14.7 million. The unassigned fund balance, which represents the amount that is available for spending at the City's discretion, is currently at \$5.8 million. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has been committed to a variety of restricted purposes

including low and moderate housing and debt service.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the major funds – General, Housing, and TransNet. Data from the other sixteen governmental funds are combined into a single, aggregated presentation entitled Non-major Governmental Funds. Individual fund data for each of these non-major governmental funds is provided in the supplementary information section of this report.

The General Fund is the chief operating fund of the City. At June 30, 2019, the total fund balance was \$6.3 million, of which \$6.1 million is considered unassigned fund balance and therefore available for discretionary use.

Proprietary Funds: The City maintains two types of proprietary funds; an enterprise fund to account for the Lemon Grove Sanitation District and an internal service fund to account for the City's self-insurance - function. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, but provide more detail and additional information, such as cash flows. Internal service funds are used to report activities that provide services to the City's other programs and activities and are reported with Governmental activities in the government-wide financial statements.

There is \$554,000 of restricted net position in the Sanitation Fund, which must be spent on pension expenses. Changes in net position show a growth over last year for Sanitation of 8.6 percent and a decrease of the Internal Service fund of 31.5 percent.

Fiduciary Funds: The City is the trustee, or fiduciary, for certain funds held on behalf of other agencies or organizations. The City maintains one type of fiduciary fund, a private purpose trust fund, which was established with the dissolution of the former Lemon Grove Redevelopment Agency to report the Successor Agency activity. Fiduciary activity is reported in a separate statement of net position and is excluded from the City's other financial statements because the City cannot use these assets to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Below are three notes of particular interest.

Note 2 – Cash and Investments: The City's total cash and investments at the end of the fiscal year totaled \$32.2 million. Approximately \$23.9 million was invested with the Local Agency Investment Fund. Approximately \$5 million was invested in Certificates of Deposits, \$1.9 million was held and invested by bond trustees, \$0.6 million was invested in a pension 115 Trust, and the balance was deposited in the City's checking accounts.

Note 5 – Capital Assets: Capital assets for the City's governmental activities were valued at \$45.2 million, net of accumulated depreciation. Capital assets for the City's business-type activities were valued at \$7.2 million. This investment in capital assets includes land, buildings, construction in progress, equipment, vehicles, and infrastructure.

Note 6 – Long-Term Liabilities: The City had a total long-term debt outstanding of \$13.2 million. The majority of this amount, \$7.6 million is comprised of net pension liability. The City's total long-term debt decreased by \$80,000 from the prior year. Reductions in compensated absence liability and governmental net pension liability were offset by increases in OPEB liability, business-type net pension liability, and claims payable.

Required Supplementary Information

The required supplementary information is comprised of budgetary comparisons for the General Fund, Housing Fund, and TransNet Fund.

The City adopts an annual budget for its General Fund and all other funds. A comparison between budget and actual is incorporated in the financial report to demonstrate compliance with the budget. The original budget was adopted in June 2018. A revised mid-year budget was adopted in February 2019.

The General Fund Budgetary Comparison Schedule shows that, for this fiscal year, the General Fund revenues and transfers exceeded projections by \$1.2 million, while the expenditures came in \$230,017 under budget. The actual revenues and expenditures resulted in a net surplus of \$804,924.

REQUESTS FOR INFORMATION

The Annual Financial Report is designed to provide a general view of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director at the City of Lemon Grove, 3232 Main Street, Lemon Grove, CA 91945, (619) 825-3800, or mbrennan@lemongrove.ca.gov.

BASIC FINANCIAL STATEMENTS

**City of Lemon Grove
Statement of Net Position
June 30, 2019**

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and Investments	\$ 8,963,421	\$ 19,580,463	\$ 28,543,884
Receivables:			
Accounts	2,314,655	316,806	2,631,461
Interest	2,113,900	-	2,113,900
Notes and Loans Receivable	7,110,839	-	7,110,839
Prepaid Items	113,893	5,971	119,864
Internal Balances	-	-	-
Cash and Investments with Fiscal Agent	136,140	555,181	691,321
Capital Assets, Not Being Depreciated	7,520,853	381,132	7,901,985
Capital Assets, Net of Accumulated Depreciation	37,710,600	6,792,974	44,503,574
Total Assets	65,984,301	27,632,527	93,616,828
DEFERRED OUTFLOWS OF RESOURCES			
OPEB Related Amounts	117,552	37,122	154,674
Pension Related Amounts	1,844,617	415,700	2,260,317
Total Deferred Inflows of Resources	1,962,169	452,822	2,414,991
LIABILITIES			
Accounts Payable	1,977,980	201,261	2,179,241
Accrued Liabilities	155,126	29,872	184,998
Deposits Payable	190,782	-	190,782
Unearned Revenue	12,180	-	12,180
Noncurrent Liabilities:			
Due Within One Year	180,772	61,260	242,032
Due in More Than One Year	9,674,549	3,248,750	12,923,299
Total Liabilities	12,191,389	3,541,143	15,732,532
DEFERRED INFLOWS OF RESOURCES			
OPEB Related Amounts	76,051	24,016	100,067
Pension Related Amounts	363,053	222,517	585,570
Total Deferred Inflows of Resources	439,104	246,533	685,637
NET POSITION			
Net Investment in Capital Assets	45,064,416	7,174,106	52,238,522
Restricted for:			
Pensions	94,048	553,967	648,015
Transportation	366,469	-	366,469
Community Development	144,759	-	144,759
Public Safety	586,517	-	586,517
Housing	9,522,842	-	9,522,842
Public-access Television	297,825	-	297,825
Unrestricted	(760,899)	16,569,600	15,808,701
Total Net Position	\$ 55,315,977	\$ 24,297,673	\$ 79,613,650

The accompanying notes are an integral part of this statement.

THIS PAGE INTENTIONALLY LEFT BLANK

**City of Lemon Grove
Statement of Activities
Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 935,586	\$ 768,795	\$ 16,096	\$ 64,796
Public Safety	11,255,122	752,784	179,157	-
Public Works	4,410,543	501,379	1,081,033	976,315
Community Development	751,601	767,271	429,070	-
Total Governmental Activities	17,352,852	2,790,229	1,705,356	1,041,111
Business-type Activities:				
Sanitation	5,489,606	6,846,373	-	-
Total Business-type Activities	5,489,606	6,846,373	-	-
Total Primary Government	\$ 22,842,458	\$ 9,636,602	\$ 1,705,356	\$ 1,041,111

General Revenues:

Taxes:

Property Taxes

Sales Taxes

Transient Occupancy Taxes

Franchise Taxes

Motor Vehicle in Lieu Taxes (Unrestricted)

Investment Earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position, Beginning of Year (Restated)

Net Position, End of Year

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-type Activities	Totals
\$ (85,899)	\$ -	\$ (85,899)
(10,323,181)	-	(10,323,181)
(1,851,816)	-	(1,851,816)
444,740	-	444,740
<u>(11,816,156)</u>	<u>-</u>	<u>(11,816,156)</u>
-	1,356,767	1,356,767
-	1,356,767	1,356,767
<u>(11,816,156)</u>	<u>1,356,767</u>	<u>(10,459,389)</u>
2,860,769	-	2,860,769
5,991,547	-	5,991,547
53,761	-	53,761
1,021,549	-	1,021,549
2,621,478	-	2,621,478
150,581	547,617	698,198
465,704	-	465,704
(22,536)	22,536	-
<u>13,142,853</u>	<u>570,153</u>	<u>13,713,006</u>
1,326,697	1,926,920	3,253,617
<u>53,989,280</u>	<u>22,370,753</u>	<u>76,360,033</u>
<u>\$ 55,315,977</u>	<u>\$ 24,297,673</u>	<u>\$ 79,613,650</u>

**City of Lemon Grove
Balance Sheet
Governmental Funds
June 30, 2019**

	General Fund	Special Revenue		Total Non-major Governmental Funds	Totals
		Housing Fund	Transnet Fund		
ASSETS					
Cash and Investments	\$ 5,634,436	\$ 715,879	\$ -	\$ 1,583,079	\$ 7,933,394
Accounts Receivable	1,378,017	-	534,317	396,911	2,309,245
Interest Receivable	-	2,113,900	-	-	2,113,900
Notes and Loans	417,776	6,693,063	-	-	7,110,839
Due from Other Funds	552,773	-	-	-	552,773
Prepaid Items	110,275	-	-	3,618	113,893
Property Held for Resale	-	-	-	-	-
Due from Successor Agency	-	-	-	-	-
Cash and Investments with Fiscal Agents	94,048	-	-	-	94,048
Total Assets	\$ 8,187,325	\$ 9,522,842	\$ 534,317	\$ 1,983,608	\$ 20,228,092
LIABILITIES					
Accounts Payable	\$ 1,388,589	\$ -	\$ 134,168	\$ 355,925	\$ 1,878,682
Accrued Liabilities	139,175	-	999	14,952	155,126
Due to Other Funds	-	-	378,192	174,581	552,773
Deposits Payable	127,244	-	-	63,538	190,782
Unearned Revenue	12,180	-	-	-	12,180
Total Liabilities	1,667,188	-	513,359	608,996	2,789,543
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue	239,214	2,113,900	77,141	263,484	2,693,739
Total Deferred Inflows of Resources	239,214	2,113,900	77,141	263,484	2,693,739
FUND BALANCES (DEFICITS)					
Nonspendable	110,275	-	-	-	110,275
Restricted	94,048	7,408,942	-	1,296,850	8,799,840
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	6,076,600	-	(56,183)	(185,722)	5,834,695
Total Fund Balances (Deficits)	6,280,923	7,408,942	(56,183)	1,111,128	14,744,810
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 8,187,325	\$ 9,522,842	\$ 534,317	\$ 1,983,608	\$ 20,228,092

The accompanying notes are an integral part of this statement.

City of Lemon Grove
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2019

Fund Balances of Governmental Funds \$ 14,744,810

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds.

Capital Assets	\$ 86,413,565	
Accumulated Depreciation	<u>(41,182,112)</u>	45,231,453

In governmental funds, other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	1,014,011	2,693,739
--	-----------	-----------

Internal service funds are used by management to charge the cost of risk management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		419,551
---	--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Capital Lease Payable		(167,037)
Compensated Absences		(523,597)
Net OPEB Liability		(3,137,118)
Net Pension Liability		(5,468,889)

Amounts for deferred inflows and deferred outflows related to the City's Net Pension Liability are not reported in the funds.

Deferred Outflows - OPEB Related Amounts		117,552
Deferred Outflows - Pension Related Amounts		1,844,617
Deferred Inflows - OPEB Related Amounts		(76,051)
Deferred Inflows - Pension Related Amounts		<u>(363,053)</u>

Net Position of Governmental Activities		<u>\$ 55,315,977</u>
---	--	----------------------

The accompanying notes are an integral part of this statement.

City of Lemon Grove
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	General Fund	Special Revenue		Total Non-major Governmental Funds	Totals
		Housing Fund	Transnet Fund		
REVENUES					
Taxes and Special Assessments	\$ 12,536,221	\$ -	\$ -	\$ 348,249	\$ 12,884,470
Licenses, Fees, and Permits	600,647	-	-	-	600,647
Fines, Forfeitures and Penalties	260,211	-	-	-	260,211
Intergovernmental Revenues	198,601	115,297	2,077,808	1,358,491	3,750,197
Charges for Services	747,790	-	-	188,240	936,030
Use of Money and Property	390,183	23,951	-	46,169	460,303
Other Revenues	465,704	23,140	-	19,891	508,735
Total Revenues	15,199,357	162,388	2,077,808	1,961,040	19,400,593
EXPENDITURES					
Current:					
General Government	889,168	-	-	35,980	925,148
Public Safety	10,903,042	-	-	214,693	11,117,735
Public Works	1,850,988	-	78,187	1,046,160	2,975,335
Community Development	594,455	-	-	30,061	624,516
Capital Outlay	-	-	565,288	1,615,784	2,181,072
Debt Service:					
Principal	80,452	-	-	-	80,452
Interest	6,236	-	-	-	6,236
Total Expenditures	14,324,341	-	643,475	2,942,678	17,910,494
Excess (Deficiency) of Revenues Over Expenditures	875,016	162,388	1,434,333	(981,638)	1,490,099
OTHER FINANCING SOURCES (USES)					
Transfers In	18,624	-	-	88,716	107,340
Transfers Out	(88,716)	-	-	-	(88,716)
Total Other Financing Sources (Uses)	(70,092)	-	-	88,716	18,624
Net Change in Fund Balances	804,924	162,388	1,434,333	(892,922)	1,508,723
Fund Balances, Beginning of Year	5,475,999	7,246,554	(1,490,516)	2,004,050	13,236,087
Fund Balances, End of Year	\$ 6,280,923	\$ 7,408,942	\$ (56,183)	\$ 1,111,128	\$ 14,744,810

The accompanying notes are an integral part of this statement.

City of Lemon Grove
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ 1,508,723

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current year.

Capital outlay	\$ 2,125,054	
Depreciation expense	<u>(1,675,499)</u>	449,555

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (698,508)

The amounts below included in the statement of activities do not provide or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (net change):

Capital Lease	80,452
Compensated Absences	239,567
OPEB Liability	(167,479)
Net Pension Liability	257,711
Loss on Disposal of Capital Assets	(4,167)

Amounts for deferred inflows and deferred outflows related to the City's Net Pension Liability and Net OPEB Liability are not reported in the funds. This is the net change in deferred outflows/inflows related to the Net Pension and OPEB liability.

Deferred Outflows - OPEB Related Amounts	117,552
Deferred Outflows - Pension Related Amounts	(104,101)
Deferred Inflows - OPEB Related Amounts	13,191
Deferred Inflows - Pension Related Amounts	(172,596)

Internal service funds are used by management to charge the cost of certain activities, such as risk management, to individual funds. The net revenue (expense) of the internal service funds is recorded with governmental activities. (193,203)

Change in Net Position of Governmental Activities \$ 1,326,697

The accompanying notes are an integral part of this statement.

**City of Lemon Grove
Statement of Net Position
Proprietary Funds
June 30, 2019**

	Business-type Activities Sanitation Fund	Governmental Activities Internal Service Fund
ASSETS		
Current Assets:		
Cash and Investments	\$ 19,580,463	\$ 1,030,027
Accounts Receivable	316,806	5,410
Due from Other Funds	-	-
Prepays	5,971	-
Total Current Assets	<u>19,903,240</u>	<u>1,035,437</u>
Noncurrent Assets:		
Restricted Cash and Investments	555,181	42,092
Capital Assets, Not being depreciated	381,132	-
Capital Assets, Net of Accumulated Depreciation	6,792,974	-
Total Noncurrent Assets	<u>7,729,287</u>	<u>42,092</u>
Total Assets	<u>27,632,527</u>	<u>1,077,529</u>
DEFERRED OUTFLOWS OF RESOURCES		
OPEB Related Amounts	37,122	-
Pension Related Amounts	415,700	-
Total Deferred Outflows of Resources	<u>452,822</u>	<u>-</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	201,261	99,298
Accrued Liabilities	29,872	-
Due to Other Funds	-	-
Compensated Absences	36,260	-
Claims Payable	25,000	44,500
Total Current Liabilities	<u>292,393</u>	<u>143,798</u>
Noncurrent Liabilities:		
Compensated Absences, Noncurrent	55,088	-
Claims Payable, Noncurrent	114,670	514,180
Net OPEB Liability	990,669	-
Net Pension Liability	2,088,323	-
Total Noncurrent Liabilities	<u>3,248,750</u>	<u>514,180</u>
Total Liabilities	<u>3,541,143</u>	<u>657,978</u>
DEFERRED INFLOWS OF RESOURCES		
OPEB Related Amounts	24,016	-
Pension Related Amounts	222,517	-
Total Deferred Inflows of Resources	<u>246,533</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	7,174,106	-
Restricted for Pensions	553,967	-
Unrestricted	16,569,600	419,551
Total Net Position	<u>\$ 24,297,673</u>	<u>\$ 419,551</u>

The accompanying notes are an integral part of this statement.

City of Lemon Grove
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2019

	Business-type Activities Sanitation Fund	Governmental Activities Internal Service Fund
OPERATING REVENUES		
Charges for Sales and Services	\$ 6,745,233	\$ 150,000
Other Revenues	101,140	-
Total Operating Revenue	<u>6,846,373</u>	<u>150,000</u>
OPERATING EXPENSES		
Personnel Costs	1,773,285	-
Contractual Services	354,262	181,495
Materials and Supplies	84,480	-
Repairs and Maintenance	79,479	-
Capacity and Treatment	2,910,414	-
Utilities	8,705	-
Insurance and Claims	49,815	147,236
Depreciation	229,166	-
Total Operating Expenses	<u>5,489,606</u>	<u>328,731</u>
Operating Income (Loss)	<u>1,356,767</u>	<u>(178,731)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	547,617	26,688
Total Nonoperating Revenues (Expenses)	<u>547,617</u>	<u>26,688</u>
Income (Loss) Before Transfers and Capital Contributions	<u>1,904,384</u>	<u>(152,043)</u>
Transfers In	22,536	-
Transfers Out	-	(41,160)
Total Transfers	<u>22,536</u>	<u>(41,160)</u>
Change in Net Position	1,926,920	(193,203)
Net Position - Beginning of Year	<u>22,370,753</u>	<u>612,754</u>
Net Position - End of Year	<u>\$ 24,297,673</u>	<u>\$ 419,551</u>

The accompanying notes are an integral part of this statement.

**City of Lemon Grove
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2019**

	Business-type Activities Sanitation Fund	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Users	\$ 7,185,501	\$ 148,075
Payments to Suppliers for Goods and Services	(3,357,298)	(113,539)
Payments to Employees for Services	(1,649,145)	-
Net Cash Provided (Used) by Operating Activities	<u>2,179,058</u>	<u>34,536</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Paid to/Received from Other Funds	17,274	(35,898)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>17,274</u>	<u>(35,898)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(346,566)	-
Capital Grants	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(346,566)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Received	547,617	26,688
Net Cash Provided (Used) by Investing Activities	<u>547,617</u>	<u>26,688</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,397,383	25,326
Cash and Cash Equivalents - Beginning of the Year	17,738,261	1,046,793
Cash and Cash Equivalents - End of the Year	<u>\$ 20,135,644</u>	<u>\$ 1,072,119</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Investments	\$ 19,580,463	\$ 1,030,027
Restricted Cash and Investments	555,181	42,092
Total Cash and Cash Equivalents	<u>\$ 20,135,644</u>	<u>\$ 1,072,119</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 1,356,767	\$ (178,731)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	229,166	-
(Increase) Decrease in Accounts Receivable	339,128	(1,925)
(Increase) Decrease in Prepaids	707	1,243
(Increase) Decrease in Deferred Outflows	78,931	-
Increase (Decrease) in Accounts Payable and Accrued Liabilities	103,873	98,659
Increase (Decrease) in Net OPEB Liability	52,888	-
Increase (Decrease) in Net Pension Liability	129,862	-
Increase (Decrease) in Deferred Inflows	(144,660)	-
Increase (Decrease) in Claims Payable	51,895	115,290
Increase (Decrease) in Compensated Absences Payable	(19,499)	-
Net Cash Provided by Operating Activities	<u>\$ 2,179,058</u>	<u>\$ 34,536</u>

The accompanying notes are an integral part of this statement.

**City of Lemon Grove
Statement of Net Position
Fiduciary Funds
June 30, 2019**

	Successor Agency Private-purpose Trust Fund
ASSETS	
Cash and Investments	\$ 1,084,111
Cash and Investments with Fiscal Agent	1,902,685
Accounts Receivable	1,723
Interest Receivable	876,484
Notes Receivable	3,200,230
Property Held for Resale	<u>6,535,362</u>
Total Assets	<u>13,600,595</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Loss on Refunding	<u>265,036</u>
Total Deferred Outflows of Resources	<u>265,036</u>
LIABILITIES	
Interest Payable	415,598
Accounts Payable	33,466
Due to the City of Lemon Grove	3,637,463
Bonds Payable, Short-term Portion	765,000
Bonds Payable, Long-term Portion	<u>21,590,000</u>
Total Liabilities	<u>26,441,527</u>
NET POSITION	
Net Position Held in Trust for Successor Agency	<u>\$ (12,575,896)</u>

The accompanying notes are an integral part of this statement.

**City of Lemon Grove
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2019**

	Successor Agency Private-purpose Trust Fund
ADDITIONS	
Property Taxes	\$ 2,064,014
Interest Revenue	<u>(43,742)</u>
Total Additions	<u>2,020,272</u>
DEDUCTIONS	
Administration	73,807
Project Costs	454,142
Interest Expense	<u>1,014,011</u>
Total Deductions	<u>1,541,960</u>
Change in Net Position	478,312
Net Position - Beginning of Year	<u>(13,054,208)</u>
Net Position - End of Year	<u><u>\$ (12,575,896)</u></u>

The accompanying notes are an integral part of this statement.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Lemon Grove, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. 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 policies are described below.

A. Financial Reporting Entity

The City of Lemon Grove was incorporated in 1977, under the laws of the State of California.

The accompanying basic financial statements present the financial activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. The City had no discretely presented component units. The blended component units have a June 30 year end. The following entities are reported as blended component units:

The Lemon Grove Sanitation District (Sanitation District): established on June 10, 1982 as part of an annexation/detachment change of organization. The Sanitation District provides sewer services within the City of Lemon Grove. The City Council acts as the Sanitation District's governing board and exerts significant influence over its operations. The Sanitation District activities are reported in an enterprise fund.

Lemon Grove Landscape and Lighting District (Landscape and Lighting District): established on May 1, 1978 to provide for establishing various street lighting improvements and maintenance for property within the City of Lemon Grove. The City Council acts as the Landscape and Lighting District's governing board and exerts significant influence over its operations.

Lemon Grove Housing Authority (Housing Authority): established in 2012, subsequent to the dissolution of the former Community Development Agency, to address the City's needs for affordable dwelling accommodations available to persons of low income. The City Council acts as the Housing Authority's Board, and management of the City performs administrative functions of the Authority, and activities are reported in a special revenue fund.

Separate financial statements for these component units are not prepared.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements

The City's Government-wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-type Activities for the City accompanied by a total column. These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liabilities are incurred.

Certain types of transactions reported as program revenues for the City are reported in three categories: Charges for services, Operating grants and contributions, and Capital grants and contributions.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Certain eliminations have been made regarding interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

The City applies all applicable GASB pronouncements including all NCGA Statements and Interpretations currently in effect.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that meet specific qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. 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 City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

The primary revenue sources that have been treated as susceptible to accrual by the City are property taxes, taxpayer-assessed tax revenues (sales taxes, transient occupancy taxes, franchise taxes, etc.), grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The City reports the following funds as major governmental funds of the City.

General Fund accounts for resources traditionally associated with governmental activities that are not required legally or by sound financial management to be accounted for in another fund.

Housing Fund accounts for the housing assets transferred from the former Redevelopment Agency, and the revenues and expenditures for the project area related to low- and moderate-income housing.

Transnet Fund accounts for Transnet allocation and street related projects eligible for Transnet funding. This fund is specifically used to finance significant right-of-way improvements (streets and sidewalks), storm drain, and traffic related projects.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows for all proprietary funds. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-wide Financial Statements.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

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

The City reports the following proprietary funds:

Sanitation Enterprise Fund accounts for the operation and maintenance of the wastewater system within the City's boundaries.

Internal service fund balances and activities have been combined with governmental activities in the Government-wide Financial Statements, and are comprised of the following:

Self-insurance Internal Service Fund accounts for all financial transactions related to the City's self-insurance program. The service is provided to other City funds or agencies of the City on a cost reimbursement basis.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements consist of a Statement of Net Position and a Statement of Changes in Net Position. The City has two types of fiduciary funds, agency funds (as applicable) and a private-purpose trust fund. Agency funds are used to account for the assets held for distribution by the City as an agent for another entity for which the City has custodial responsibility and accounts for the flow of assets. Private-purpose trust funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments (i.e. unclaimed property/escheat property). Fiduciary funds are accounted for using the accrual basis of accounting.

The City reports the following fiduciary fund:

Successor Agency to the Lemon Grove Community Development Agency Private-purpose Trust Fund accounts for the balances and activities relating to the dissolution of the former Community Development Agency (Agency), except those accounted for in the Housing Special Revenue Fund of the City.

C. Cash, Cash Equivalents, and Investments

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments with varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California entitled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

D. Restricted Cash and Investments

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

E. Compensated Absences

Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than two times their regular annual entitlement.

Sick leave is payable when an employee is unable to work because of illness. Unused sick leave at termination is lost, unless eligible for conversion to retirement credit as provided by the City contract with CalPERS. For safety employees, upon retirement or termination of employment, suppression employees shall be paid for all accrued unfrozen sick leave at the rate of one-half the accumulated time. Pay shall be based upon vested amounts at the employee's pay rate at the time the hours were earned. Upon retirement, employees have the option to apply sick leave toward retirement credit on an hour-for-hour basis. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

F. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls, as follows:

Property Valuations are established by the Assessor of the County of San Diego for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978), properties are assessed at 100% of full value. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

**City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Tax Levies are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation. The City's share of the \$1.00 varies depending on the tax rate area and it ranges from \$0.0730 to \$0.125. Tax Levy Dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Levy Apportionments: Due to the nature of the City-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under State legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees: The State of California FY 1990-91 Budget Act authorized counties to collect an administration fee for collection and distribution of property taxes. Property taxes are recorded net of administration fees withheld during the fiscal year.

The following are significant dates relating to the City's property taxes:

Lien date	March 1
Levy date	June 30
Due date	November 1 and February 1
Collection dates	December 10 and April 10

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, traffic lights and signals, street lights, and similar items), are reported in the applicable government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 (\$100,000 for infrastructure) or more and an estimated useful life in excess of one year. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received prior to the implementation of GASB 72 were recorded at fair value on the date of donation. Donated capital assets received subsequent to the implementation of GASB 72 are recorded at acquisition value as of the date received. The cost of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year ended June 30, 2018.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Structures and Improvements	40
Public Domain Infrastructure	50
System Infrastructure	30
Vehicles	3 to 15
Other Equipment and Furnishings	3 to 20
Computer Equipment	3 to 10

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. Interest Payable

In the Government-wide and Proprietary Funds Financial Statements, interest payable on long-term debt is recognized as the liability is incurred.

I. Unavailable and unearned revenue

Unearned revenue is reported for transactions for which revenue has not yet been earned. In the governmental fund financial statements, unavailable revenue is recorded when transactions have not met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unavailable and unearned revenues for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which unearned and unavailable revenues are recorded are grants received but not yet earned or available.

J. Claims and Judgments

The short-term and long-term workers' compensation and general liability claims payable are reported in the Internal Service Fund. The short-term liability which will be liquidated with current financial resources is the amount of settlement reached, but unpaid, related to claims and judgments entered.

K. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and American Institute of Certified Public Accountants (AICPA), requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

L. Long-term Obligations

In the Government-wide Financial Statements and Proprietary Fund Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net position. Initial-issue bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are expensed when bonds are issued.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses.

M. Net Position

In the Government-wide Financial Statements, net position is classified in the following categories:

Net Investment in Capital Assets – This category consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted – This category is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

Unrestricted – This category represents all other amounts that do not meet the definition of net investment in capital assets or restricted net position as defined above.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

N. Fund Balances

Non-spendable Fund Balances

These include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact; e.g., the principal of an endowment fund. Examples of “not in spendable form” include inventory, prepaid amounts, property held for resale and other items not expected to be converted to cash. However, if the proceeds from the eventual sale or liquidation of the items would be considered restricted, committed or assigned (as defined further on) then these amounts would be classified as restricted, committed or assigned rather than non-spendable. A debt service reserve fund held by a trustee is an example of fund balance in non-spendable form that is classified as restricted instead of non-spendable since the reserve is eventually liquidated to make the final debt service principal payment.

Restricted Fund Balances

Restricted fund balances have externally enforceable limitations on use. The limitations on use can be imposed by creditors, grantors, or contributors as well as by constitutional provisions, City charter, enabling legislation, laws and government regulations.

Committed Fund Balances

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (Ordinance) of the City Council are classified as committed fund balances.

Assigned Fund Balances

Fund balance amounts for which the City Council has expressed intent for use but not taken formal action to commit are reported as assigned under GASB 54.

Unassigned Fund Balance

The residual classification for the General Fund is unassigned fund balance. The General Fund is the only fund that may report a positive unassigned fund balance. Negative fund balance reported in Special Revenue Funds is classified as unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then followed by unrestricted resources in the following order: committed, assigned, and unassigned, as necessary.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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 reports an unamortized deferred charge on refunding resulting from the difference in carrying value of refunded debt and its reacquisition price, and deferred employer pension contributions as deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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 reports two items in this category: unavailable revenues and amounts related to changes in the City’s net pension liability that are deferred and amortized over a stated number of years. Unavailable revenues arise only under the modified accrual basis of accounting and, accordingly, are reported only in the governmental funds. The governmental funds report unavailable revenue from grants, sales tax revenues, and other applicable revenues.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

These amounts are deferred and will be recognized as inflows of resources in the period that the amounts become available. The City also reports deferred inflows as a result of the City's implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

P. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of Lemon Grove's California Public Employees' Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. New Accounting Pronouncements

The Governmental Accounting Standards Board has issued the following Pronouncements, which may affect the City's financial reporting requirements in the future:

GASB 84 - Fiduciary Activities: This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

GASB 87 - Leases: This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB 89 - Accounting for Interest Cost Incurred before the End of a Construction Period: This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB 90 - Majority Equity Interests: The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

2. CASH AND INVESTMENTS

A. Summary of Cash and Investments

Cash and investments within the basic financial statements are reported as follows:

	Government-wide Statement of Net Position			
	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and Investments	\$ 8,963,421	\$ 19,580,463	\$ 1,084,111	\$ 29,627,995
Restricted Cash and Investments	136,140	555,181	1,902,685	2,594,006
Total Cash and Investments	\$ 9,099,561	\$ 20,135,644	\$ 2,986,796	\$ 32,222,001

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

2. CASH AND INVESTMENTS – Continued

Cash and investments as of June 30, 2019 consist of the following:

Cash on Hand	\$	1,700
Deposits with Financial Institutions		671,404
Deposits with Fiscal Agent		691,321
Total Cash on Hand and Deposits		1,364,425
Local Agency Investment Fund		23,942,655
Certificates of Deposit		5,012,236
Total Investments		28,954,891
Investments with Fiscal Agent:		
Money Market		53,266
U.S. Treasury Note		1,262,554
Corporate Issues		586,865
Total Fiscal Agent Investments		1,902,685
Total Cash and Investments	\$	32,222,001

B. Deposits

The carrying amount of the City's deposits was \$1,364,425 at June 30, 2019. Bank balances before reconciling items amounted to \$2,028,180 at June 30, 2019. The City has not waived the collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. Amounts are collateralized with securities held by the pledging financial institution in the City's name.

The California Government Code (Code) requires California banks and savings and loan associations to secure the City's deposits by pledging securities as collateral. The Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for deposits is considered to be held in the City's name. The market value of pledged securities must equal at least 110% of the City's deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

C. Investments Authorized by the California Government Code and the City's Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage/Amount of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	None
Certificates of Deposits	5 Years	30%	None

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

2. CASH AND INVESTMENTS – Continued

D. Investments Authorized by Debt Agreements

Investments of debt proceeds held by trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

E. 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 flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Maturity (in Months)			
	Total	12 Months Or Less	13 to 24 Months	25 to 60 Months
Local Agency Investment Fund	\$ 23,942,655	\$ 23,942,655	\$ -	\$ -
Certificate of Deposits	5,012,236	440,786	535,784	4,035,666
Held by Fiscal Agents:				
US Bank Money Market	53,266	53,266	-	-
U.S. Treasury Note	1,262,554	618,400	-	644,154
Private Export Funding Corp.	586,865	-	586,865	-
	<u>\$ 30,857,576</u>	<u>\$ 25,055,107</u>	<u>\$ 1,122,649</u>	<u>\$ 4,679,820</u>

F. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City's investments (including investments held by bond trustees) do not include any investments that are highly sensitive to interest rate fluctuations.

G. 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 fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Actual Rating		
			AA+	Aaa	Unrated
Local Agency Investment Fund	\$ 23,942,655	N/A	\$ -	\$ -	\$ 23,942,655
Cerificates of Deposits	5,012,236	N/A	-	-	5,012,236
Held by Fiscal Agents:					
US Bank Money Market	53,266	AAA	-	-	53,266
U.S. Treasury Note	1,262,554	N/A	-	1,262,554	-
Private Export Funding Corp.	586,865	A-1+	-	586,865	-
Total	<u>\$ 30,857,576</u>		<u>\$ -</u>	<u>\$ 1,849,419</u>	<u>\$ 29,008,157</u>

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

2. CASH AND INVESTMENTS – Continued

H. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. The City has no 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 by reporting unit (primary government, governmental activities, business type activities, fiduciary funds, major funds, non-major funds in the aggregate).

I. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

J. External Investment Pools

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.

K. Investment Valuation

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period.

Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: 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.

Restricted cash and investments included money market accounts and guaranteed investment contracts which are not subject to fair value measurement. The City has the following recurring fair value measurements as of June 30, 2019:

- U.S. Treasury Securities of \$1,262,554 are valued using quoted market prices (Level 1 inputs).
- Certificates of Deposit of \$5,012,236 are valued using a matrix pricing model (Level 2 inputs).
- Corporate Securities of \$586,865 are valued using quoted market prices (Level 1 inputs).

The City's fair value for its investment in the State of California Local Agency Investment Fund (LAIF) is based on the fair market value factors provided by LAIF that are calculated based on the total fair market value of the pool. LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets, and investments categorized as Level 2, such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices derived principally from, or corroborated by, observable market data by correlation to other means.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

3. NOTES RECEIVABLE

As of June 30, 2019, Notes Receivable of \$9,893,292 consisted of the following:

Hitzke Development Corporation

During the fiscal year ended June 30, 2009, the City entered into Owner Participation Agreements with Hitzke Development Corporation (Developer) for the development of several projects within the City's project area. In addition, the City executed promissory notes with the Developer with amounts not-to-exceed (excluding accrued interest) \$2,763,292 for Citronica One, \$2,500,000 for Citronica Two, and \$1,500,000 for Citronica Three, all at 3.0% interest and secured by a deed of trust for each note creating a valid lien upon the Developer's interest in the development parcels.

The funds are being used to construct a 54-unit mixed-use affordable housing project. The notes call for funds to be advanced to the borrower for the purchase of several parcels to be used for the projects. In addition, the funds can be used for certain pre-development costs.

During the fiscal year ended June 30, 2013, the City executed another promissory note with the Developer in an amount not-to-exceed (excluding interest) \$1,323,031 for Citronica One. The notes are due and payable two (2) years from the date of the execution of the notes or rolled over as additional assistance into the development and disposition agreement. As of June 30, 2019, the City had advanced \$4,263,292 and \$2,500,000 (Citronica One and Two, respectively) to the borrower. In addition, \$1,195,427 and \$761,299 (Citronica One and Two, respectively) of cumulative interest is accrued as of June 30, 2019.

Community Collective

The City issued a Note to Community Collective in an amount not-to-exceed \$3,130,000 at 3.0% interest secured by a deed of trust, assignment of rents, a security agreement and fixture filing. Community Collective is using the funds to construct a mixed-use, multi-family residential housing project for extremely low, very low, and low-income persons. The Note calls for funds to be advanced to the borrower for costs related to the project as the costs are incurred by the borrower. The note is due and payable in full in fifty-five (55) years from the date of the note or upon sale or refinancing of the project. In the event there is surplus cash (as defined in the note), Community Collective shall pay the City one-half of the available surplus cash.

As of June 30, 2019, the City had advanced \$3,130,000 to the borrower. In addition, \$1,033,659 of cumulative interest is accrued as of June 30, 2019.

4. DUE FROM SUCCESSOR AGENCY

The General Fund previously advanced the former Lemon Grove Community Development Agency amounts to fund various redevelopment projects. The advances payable had no stated interest rate. During fiscal year 2012, following the dissolution of California redevelopment agencies, the payable was transferred from the former Agency to the Successor Agency Private-purpose Trust Fund. In 2018-19, the General Fund advanced an additional \$17,776 to the Successor Agency relating to bond reserve requirements.

The repayment of the original advances is uncertain as of June 30, 2019, and is subject to approval by the State Department of Finance as an enforceable obligation of the Successor Agency under applicable redevelopment agency dissolution law. As of June 30, 2019, the amount due from the Successor Agency was \$3,637,463, and is offset by an allowance for doubtful accounts, except for \$417,776, which was approved for repayment in 2019-20.

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

5. CAPITAL ASSETS – Continued

Governmental Activities	Beginning Balance *	Additions	Deletions	Ending Balance
Capital Assets, Not Being Depreciated:				
Land and Improvements	\$ 7,520,853	\$ -	\$ -	\$ 7,520,853
Construction in Progress	5,331,174	-	(5,331,174)	-
Total Capital Assets, Not Being Depreciated	12,852,027	-	(5,331,174)	7,520,853
Capital Assets, Being Depreciated:				
Buildings and Improvements	9,850,714	-	-	9,850,714
Vehicles and Equipment	2,734,450	56,019	(31,235)	2,759,234
Infrastructure	58,882,555	7,400,209	-	66,282,764
Total Capital Assets, Being Depreciated	71,467,719	7,456,228	(31,235)	78,892,712
Less Accumulated Depreciation:				
Buildings and Improvements	(6,786,630)	(225,544)	-	(7,012,174)
Vehicles and Equipment	(1,805,457)	(136,899)	27,068	(1,915,288)
Infrastructure	(30,941,594)	(1,313,056)	-	(32,254,650)
Total Accumulated Depreciation	(39,533,681)	(1,675,499)	27,068	(41,182,112)
Capital Assets Being Depreciated, Net	31,934,038	5,780,729	(4,167)	37,710,600
Total Capital Assets - Governmental Activities	\$ 44,786,065	\$ 5,780,729	\$ (5,335,341)	\$ 45,231,453
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land and Improvements	\$ 3,724	\$ -	\$ -	\$ 3,724
Construction in Progress	766,126	346,566	(735,284)	377,408
Total Capital Assets, Not Being Depreciated	769,850	346,566	(735,284)	381,132
Capital Assets, Being Depreciated:				
Machinery and Equipment	1,366,481	-	(37,627)	1,328,854
Infrastructure	13,428,749	735,284	-	14,164,033
Total Capital Assets, Being Depreciated	14,795,230	735,284	(37,627)	15,492,887
Less Accumulated Depreciation:				
Machinery and Equipment	(1,070,608)	(58,289)	37,627	(1,091,270)
Infrastructure	(7,437,766)	(170,877)	-	(7,608,643)
Total Accumulated Depreciation	(8,508,374)	(229,166)	37,627	(8,699,913)
Capital Assets Being Depreciated, Net	6,286,856	506,118	-	6,792,974
Total Capital Assets - Business-type Activities	\$ 7,056,706	\$ 852,684	\$ (735,284)	\$ 7,174,106

* The beginning balances were increased by \$181,040 due to a prior period adjustment relating to accumulated depreciation.

Depreciation expense was allocated to the various governmental activities functions as follows:

General Government	\$ 42,240
Public Safety	131,151
Public Works	1,375,023
Community Development	127,085
Total Governmental Depreciation	\$ 1,675,499

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

6. LONG-TERM DEBT

The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Lease Payable	\$ 247,489	\$ -	\$ (80,452)	\$ 167,037	\$ 82,479
Compensated Absences	763,164	-	(239,567)	523,597	48,293
Total OPEB Liability	2,969,639	167,479	-	3,137,118	-
Net Pension Liability	5,726,600	-	(257,711)	5,468,889	-
Claims Payable	443,390	115,290	-	558,680	50,000
Total	\$10,150,282	\$ 282,769	\$ (577,730)	\$ 9,855,321	\$ 180,772
Business-type Activities:					
Compensated Absences	\$ 87,775	\$ 3,573	\$ -	\$ 91,348	\$ 36,260
Total OPEB Liability	937,781	52,888	-	990,669	-
Net Pension Liability	1,958,461	129,862	-	2,088,323	-
Claims Payable	110,847	28,823	-	139,670	25,000
Total	\$ 3,094,864	\$ 215,146	\$ -	\$ 3,310,010	\$ 61,260

For governmental activities, leases payable, compensated absences, the OPEB liability and the net pension liability are generally liquidated by the General Fund.

Capital Lease Payable: In 2013, the City entered into a capital lease for the purchase of a pumper, at a price of \$550,000. Annual payments are to be made on July 5 of each year, with the final payment on July 5, 2020. The payments include interest of approximately 2.5%. The following represents the future debt service requirements for this lease:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 82,479	\$ 4,209	\$ 86,688
2021	84,558	2,131	86,689
Total	\$ 167,037	\$ 6,340	\$ 173,377

Fiduciary Fund Long-term Debt

A summary of the Successor Agency Fiduciary Fund long-term debt for the 2018-19 fiscal year is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Tax Allocation Bonds:					
Series 2007	\$ 12,185,000	\$ -	\$ (225,000)	\$ 11,960,000	\$ 230,000
Series 2010, Refunding	5,500,000	-	(395,000)	5,105,000	410,000
Series 2014, Refunding	5,410,000	-	(120,000)	5,290,000	125,000
Total	\$ 23,095,000	\$ -	\$ (740,000)	\$ 22,355,000	\$ 765,000

2007 Tax Allocation Bonds: In June 2007, the former Community Development Agency issued \$13,830,000 of Tax Allocation Bonds with interest rates varying from 4.00% to 5.00% and payable semi-annually on February 1 and August 1 of each year, through 2037. The bonds are payable from and secured by incremental tax revenues (Pledged Tax Revenues). The bonds were issued to finance redevelopment activities within or for the benefit of the Agency's project area, and to finance low- and moderate-income housing activities within the geographic boundaries of the City of Lemon Grove. Future debt service requirements are as follows:

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

6. LONG-TERM DEBT – Continued

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 230,000	\$ 529,084	\$ 759,084
2021	230,000	519,540	749,540
2022	240,000	509,668	749,668
2023	255,000	499,149	754,149
2024	260,000	488,010	748,010
2025	290,000	475,910	765,910
2026	300,000	462,930	762,930
2027	315,000	449,400	764,400
2028	330,000	435,210	765,210
2029	340,000	420,300	760,300
2030	360,000	404,550	764,550
2031	365,000	388,237	753,237
2032	385,000	371,363	756,363
2033	865,000	343,237	1,208,237
2034	1,085,000	299,363	1,384,363
2035	1,135,000	249,413	1,384,413
2036	1,585,000	188,212	1,773,212
2037	1,655,000	115,312	1,770,312
2038	1,735,000	39,037	1,774,037
Totals	<u>\$ 11,960,000</u>	<u>\$ 7,187,925</u>	<u>\$ 19,147,925</u>

2010 Tax Allocation Refunding Bonds: During fiscal year 2011, the former Community Development Agency issued \$8,000,000 of Tax Allocation Bonds with interest rates varying from 1.75% to 5.25%, payable semi-annually on February 1 and August 1 of each year, through August 1, 2028. The bonds are payable from and secured by incremental tax revenues. The Bond proceeds were used to refund the former Agency's 1998 Tax Allocation Bonds. The scheduled annual minimum debt service requirements at June 30, 2019 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 410,000	\$ 248,430	\$ 658,430
2021	425,000	230,155	655,155
2022	445,000	209,690	654,690
2023	470,000	186,685	656,685
2024	490,000	161,965	651,965
2025	520,000	135,957	655,957
2026	545,000	108,534	653,534
2027	570,000	79,537	649,537
2028	600,000	48,825	648,825
2029	630,000	16,538	646,538
Totals	<u>\$ 5,105,000</u>	<u>\$ 1,426,316</u>	<u>\$ 6,531,316</u>

2014 Tax Allocation Refunding Bonds: In August 2014, the Successor Agency issued \$5,740,000 of Tax Allocation Bonds with interest rates varying from 2.00% to 5.00% and payable semi-annually on February 1 and August 1 of each year. The bonds mature annually at various amounts through August 1, 2034. The Bond proceeds were used to refund previously outstanding Tax Allocation Bonds. The scheduled annual minimum debt service requirements at June 30, 2019 are as follows:

**City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019**

6. LONG-TERM DEBT – Continued

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 125,000	\$ 204,961	\$ 329,961
2021	130,000	201,136	331,136
2022	135,000	196,993	331,993
2023	135,000	192,605	327,605
2024	145,000	186,786	331,786
2025	140,000	179,661	319,661
2026	150,000	172,411	322,411
2027	165,000	165,877	330,877
2028	165,000	160,205	325,205
2029	170,000	154,215	324,215
2030	835,000	135,456	970,456
2031	875,000	102,300	977,300
2032	910,000	66,600	976,600
2033	505,000	38,300	543,300
2034	345,000	21,300	366,300
2035	360,000	7,200	367,200
Totals	<u>\$ 5,290,000</u>	<u>\$ 2,186,006</u>	<u>\$ 7,476,006</u>

7. DEFINED BENEFIT PENSION PLAN

General Information about the Defined Benefit Pension Plan

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool and a miscellaneous risk pool. Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68.

Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The City sponsors five rate plans (three miscellaneous and two safety). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – The Plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2017 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2017 actuarial valuation report. This report is a publicly available valuation report that can be obtained at the CalPERS' website under Forms and Publications.

The rate plan provisions and benefits in effect at June 30, 2019, are summarized as follows:

**City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019**

7. DEFINED BENEFIT PENSION PLAN – Continued

	Miscellaneous	Miscellaneous Tier II	Miscellaneous PEPRA
Hire date	Prior to November 12, 2005	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55 single highest year	2% @ 60 36 month average	2% @ 62 36 month average
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	50	50	52
Monthly benefits, as a % of eligible compensation	2% to 2.5%	1.092% to 2.418%	1% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	10.609% + \$287,013	7.634% + \$341	6.842% + \$869
	Safety	Safety PEPRA	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	
Benefit formula	3% @ 55 single highest year	2.7% @ 57 36 month average	
Benefit vesting schedule	5 years service	5 years service	
Benefit payments	monthly for life	monthly for life	
Retirement age	50	50	
Monthly benefits, as a % of eligible compensation	2.4% to 3%	2% to 2.7%	
Required employee contribution rates	9%	12%	
Required employer contribution rates	18.677% + \$154,395	12.141% + \$150	

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

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability. The dollar amounts are billed on a monthly basis. The City’s required contribution for the unfunded liability was \$442,768 in fiscal year 2019.

The City’s contributions to the Plan for the year ended June 30, 2019 were \$962,913.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the City reported a liability of \$7,557,212 for its proportionate share of the net pension liability. The City’s net pension liability for the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The City’s proportion of the net pension liability was based on a projection of the City’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLAN – Continued

The City's proportionate share of the Plan's net pension liability as of June 30, 2017 and 2018 was as follows:

Proportion - June 30, 2017	0.07749%
Proportion - June 30, 2018	0.07842%
Change - Increase (Decrease)	0.00093%

For the year ended June 30, 2019, the City recognized pension expense of \$1,087,319. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 962,913	\$ -
Differences between actual and expected experience	183,232	-
Changes in assumptions	647,957	-
Change in employer's proportion	214,328	(357,767)
Differences between the employer's contributions and the employer's proportionate share of contributions	210,760	(227,803)
Net differences between projected and actual earnings on plan investments	41,127	-
Total	\$ 2,260,317	\$ (585,570)

The \$962,913 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	
2020	\$ 458,330
2021	506,236
2022	(189,023)
2023	(63,709)
2024	-
Thereafter	-

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	entry-age normal
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Projected salary increase	(1)
Investment rate of return	7.15%
Mortality	(2)

(1) Depending on age, service and type of employment

(2) Derived using CalPERS' Membership Data for all Funds.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLAN – Continued

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Long-term Expected Rate of Return - The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows.

Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

The expected rate of return was set by calculating the rounded 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 adjusted to account for assumed administrative expenses. The expected real rates of return by asset class are as follows:

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11+ (2)
Global Equity	50%	4.80%	5.98%
Global Fixed Income	28%	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8%	6.30%	7.23%
Real Assets	13%	3.75%	4.93%
Liquidity	1%	-	-0.92%

(1) An expected inflation of 2.0% used for this period.

(2) An expected inflation of 2.92% used for this period.

Discount Rate – The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

**City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019**

7. DEFINED BENEFIT PENSION PLAN – Continued

1% Decrease		6.15%
Net Pension Liability	\$	12,209,501
Current Discount Rate		7.15%
Net Pension Liability	\$	7,557,212
1% Increase		8.15%
Net Pension Liability	\$	3,725,604

Pension Plan Fiduciary Net Position – Detailed information about the Plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

At June 30, 2019, the City reported no payables to the pension plan, for outstanding contributions required for the year ended June 30, 2019.

8. OTHER POST EMPLOYMENT BENEFITS

General Information About the OPEB Plan

Plan Description - The City provides medical coverage for retirees and their spouses. This coverage is available for employees who satisfy the requirements for retirement under the California Public Employees Retirement System (PERS). The plan is a single-employer defined benefit post-employment healthcare benefits plan. The City’s health plan does not issue a publicly available financial report, and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided - Employees are eligible for retiree health benefits if they retire from the City on or after age 50 and 5 years of service (age 52 for Miscellaneous PEPRA employees), and continue health insurance through a City-sponsored health insurance plan. The City will contribute set amounts (as required by CalPERS) towards the health insurance premiums (currently \$255 for Miscellaneous employees and \$350 for Safety employees).

Employees Covered by Benefit Terms – As of the July 1, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Retirees or spouses of retirees		
currently receiving benefits		41
Active employees		<u>58</u>
		<u>99</u>

Contributions – The Plan and its contribution requirements are established by Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the City and the bargaining units. The annual contributions to the Plan are based on the costs to provide the benefits as described above on a pay as you go basis. For the fiscal year ended June 30, 2019, the City’s pay-as-you-go costs were \$224,968.

Total OPEB Liability - The City’s Total OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation dated July 1, 2017, based on the following actuarial methods and assumptions:

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

8. OTHER POST EMPLOYMENT BENEFITS - Continued

Valuation Date	July 1, 2017
Actuarial Cost Method	Entry-age, Level Percent of Pay
Mortality	RP-2014 Employee Healthy Annuitant Mortality Tables
Age at Retirement	50
Health Care Trend Rate	8.00% initial, 5.0% ultimate
Inflation Rate	2.25%
Salary Changes	3.00%
Discount Rate	
As of 6/30/17	3.60%, net of investment expense, including inflation
As of 6/30/18	3.90%, net of investment expense, including inflation
As of 6/30/19	3.50%, net of investment expense, including inflation
Medical CPI	3.50%

Discount Rate – The discount rate used to measure the total OPEB liability was 3.50 percent and is based on the Bond Buyer 20-Bond GO index.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2018	\$ 3,907,420
Changes in the year:	
Service cost	114,804
Interest on the total OPEB liability	152,187
Differences between expected and actual experience	(14,999)
Changes in assumptions	193,343
Benefit payments, including implicit subsidy	(224,968)
Net changes	220,367
Balance at June 30, 2019	\$ 4,127,787

Changes of assumptions reflect a change in the discount rate from 3.60 percent at July 1, 2017 to 3.90 percent at June 30, 2018 and 3.50 percent at June 30, 2019.

Sensitivity of the Total OPEB Liability to changes in the Discount Rate - The following presents the Total OPEB liability of the City if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
Total OPEB liability	\$ 4,619,654	\$ 4,127,787	\$ 3,695,804

Sensitivity of the Total OPEB Liability to changes in the Healthcare Cost Trend Rates - The following presents the Total OPEB liability, as well as what the City's Total OPEB would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate:

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

8. OTHER POST EMPLOYMENT BENEFITS – Continued

	1% Decrease (7.0% decreasing to 4.0%)	Current Rates (8.0% decreasing to 5.0%)	1% Increase (9.0% decreasing to 6.0%)
Total OPEB liability	\$ 3,985,819	\$ 4,127,787	\$ 4,257,880

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - For the year ended June 30, 2019, the City recognized OPEB expense of \$273,304. As of June 30, 2019, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 16,138
Changes in assumptions	154,674	83,929
Total	\$ 154,674	\$ 100,067

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,		
2020	\$	6,313
2021		6,313
2022		6,314
2023		35,667
2024		-
Thereafter		-

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance as of the 2018-19 fiscal year. In years prior to the 2016-17 fiscal year the City was a member of an insurance pool (San Diego Pooled Insurance Program Authority) which provided various levels of pooled liability coverage and property insurance, subject to self-insured retention levels and deductibles. The City's current insurance coverage is provided through the CSAC Excess Insurance Authority, as follows:

Program	Limits	SIR/ Deductible
Excess Workers' Compensation	Statutory	\$ 125,000
General Liability	\$ 25,000,000	100,000
Property	Various	5,000
Crime	15,000,000	2,500
Cyber Liability	Various	50,000
Excess Liability	25,000,000	25,000
Pollution	10M/100M	75,000

Claims liabilities of the City are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR).

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

9. RISK MANAGEMENT – Continued

The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and pay-out amounts), and other economic and social factors. Settlements have not exceeded coverage for each of the past three fiscal years. The City's claims activity is reported in internal service funds. The following is a summary of changes in claims liabilities for the past three years:

	Fiscal Year Ending June 30,		
	2019	2018	2017
Beginning of Year	\$ 554,327	\$ 689,395	\$ 188,787
Incurred Claims	599,526	165,673	528,750
Claim Payments	(455,503)	(300,831)	(28,142)
End of Year	\$ 698,350	\$ 554,237	\$ 689,395

The estimated Claims Liability at June 30, 2019 of \$698,350 is reported in the City's Governmental Activities and Business-type Activities in the following amounts: \$558,680 and \$139,670, respectively.

10. FUND BALANCES

The details of fund balances as of June 30, 2019 are as follows:

	General Fund	Housing Fund	Transnet Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Prepaid Items	\$ 110,275	\$ -	\$ -	\$ -	\$ 110,275
Restricted for:					
Pensions	94,048	-	-	-	94,048
Housing	-	7,408,942	-	-	7,408,942
Public Safety	-	-	-	658,655	658,655
Streets and Transportation	-	-	-	243,295	243,295
Community Development	-	-	-	310,450	310,450
Parks and Recreation	-	-	-	84,450	84,450
Unassigned	6,076,600	-	(56,183)	(185,722)	5,834,695
Total Fund Balances	\$ 6,280,923	\$ 7,408,942	\$ (56,183)	\$ 1,111,128	\$ 14,744,810

11. JOINT POWERS AUTHORITY

The City is a member of the Heartland Communications Facility Authority (HCFA). HCFA was created to equip, maintain, operate and staff a facility which provides emergency call receiving and dispatching services to participating agencies. No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2018. Complete financial statements may be obtained at the City of El Cajon, Finance City, 200 E. Main Street, El Cajon, CA 92020.

The Lemon Grove Sanitation District is a participant in the Metropolitan Wastewater Joint Powers Authority (JPA), a coalition of municipalities and special districts that share the use of the City of San Diego's Metropolitan Sewerage System. The Sanitation District pays a quarterly amount based on estimates of the District's cost to use the wastewater facilities in advance of each fiscal year. The estimated payments are subject to adjustment once the actual usage figures are known and may result in a refund or an additional payment due to the City of San Diego. Complete financial statements may be obtained at 276 Fourth Avenue, Chula Vista, CA 91910.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

12. SUCCESSOR AGENCY FOR THE FORMER REDEVELOPMENT AGENCY

A. Background

On December 29, 2011, the California Supreme Court upheld Assembly Bill X126 (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 since the City had previously reported its redevelopment agency as a blended component unit in the City's financial statements.

The Bill provides that upon dissolution of the redevelopment agency, either the City or another unit of local government will agree to serve as the "Successor Agency" to hold the assets of the dissolved redevelopment agency until they are distributed to other units of state and local government. On January 17, 2012, the City Council adopted Resolution No. 3071, electing to become the Successor Agency for the former redevelopment agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California were prohibited from entering 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.

In subsequent years, Successor Agencies are only allocated revenue in the amount that is necessary to pay the estimated annual 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 California Department of Finance has approved the Lemon Grove Successor Agency's Long-range Management Plan and has also issued a Finding of Completion. The State continues to monitor the Recognized Obligation Payment Schedule (ROPS) that is filed annually by the Successor Agency.

13. COMMITMENTS AND CONTINGENCIES

A. Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that maybe disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

B. Successor Agency

Amounts paid and accrued for the year ended June 30, 2019 (and subsequent years in which the Successor Agency is in operation) are subject to review by various State agencies and the County in which the Successor Agency resides. If any expenses incurred by the Successor Agency are disallowed by the State agencies or County, the City, acting as the fiduciary for the Successor Agency could be liable for the repayment of the disallowed costs from either its own funds or by the State withholding remittances normally paid to the City. The amount, if any, of expenses that may be disallowed by the State agencies or County cannot be determined at this time, although the Successor Agency expects such amounts, if any, to be immaterial.

C. Other Commitments and Contingencies

At June 30, 2019, the City had outstanding construction contracts of approximately \$232,000. In addition, the City is a defendant in various pending lawsuits of a nature common to many similar jurisdictions. City management and legal counsel estimates that the potential claims against the City not covered by insurance resulting from such litigation would not materially affect the City's financial statements.

City of Lemon Grove
Notes to the Financial Statements
Year Ended June 30, 2019

14. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The \$552,773 reported in the General Fund as due from other funds consists of \$378,192 due from the Transnet Special Revenue Fund, and \$174,581 due from nonmajor governmental funds. These represent temporary, interfund borrowings resulting from routine cash flows and are expected to be repaid within the next fiscal year.

A transfer of \$88,716 was made from the General Fund to nonmajor governmental funds to cover operating deficits. Additional transfers of \$18,624 and \$22,536 were made to the General Fund and the Sanitation Fund, respectively, from the Internal Service Fund to reimburse worker's compensation claims paid.

15. PRIOR PERIOD ADJUSTMENTS

Beginning Net Position for Governmental Activities was increased by \$181,040 due to adjustments relating to accumulated depreciation for capital assets.

16. SUBSEQUENT EVENTS

Subsequent to June 30, 2019, the City initiated the process of refunding outstanding Tax Allocation Bonds reported in the Successor Agency Private-purpose Trust Fund. It is anticipated the refunding will be completed in the 2019-20 fiscal year.

17. DEFICIT FUND BALANCES

Deficit fund balances of \$173,108 and \$12,349 in the CDBG and TDA nonmajor special revenue funds, respectively, will be eliminated through future collection and recognition of applicable revenues.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and Special Assessments	\$ 11,619,205	\$ 12,172,805	\$ 12,536,221	\$ 363,416
Licenses, Fees, and Permits	469,500	569,500	600,647	31,147
Fines, Forfeitures and Penalties	154,200	199,200	260,211	61,011
Intergovernmental Revenues	17,400	41,900	198,601	156,701
Charges for Services	492,450	723,688	747,790	24,102
Use of Money and Property	270,100	276,100	390,183	114,083
Other Revenues	40,000	30,000	465,704	435,704
Total Revenues	<u>13,062,855</u>	<u>14,013,193</u>	<u>15,199,357</u>	<u>1,186,164</u>
EXPENDITURES				
Current:				
General Government	905,237	959,237	889,168	70,069
Public Safety	10,747,348	10,961,858	10,903,042	58,816
Public Works	1,271,765	1,915,047	1,850,988	64,059
Community Development	521,126	631,526	594,455	37,071
Capital Outlay	-	-	-	-
Debt Service	86,690	86,690	86,688	2
Total Expenditures	<u>13,532,166</u>	<u>14,554,358</u>	<u>14,324,341</u>	<u>230,017</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(469,311)</u>	<u>(541,165)</u>	<u>875,016</u>	<u>1,416,181</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	20,000	30,813	18,624	(12,189)
Transfers Out	(83,992)	(86,342)	(88,716)	(2,374)
Total Other Financing Sources (Uses)	<u>(63,992)</u>	<u>(55,529)</u>	<u>(70,092)</u>	<u>(14,563)</u>
Net Change in Fund Balances	(533,303)	(596,694)	804,924	1,401,618
Fund Balance, Beginning of Year	<u>5,475,999</u>	<u>5,475,999</u>	<u>5,475,999</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 4,942,696</u>	<u>\$ 4,879,305</u>	<u>\$ 6,280,923</u>	<u>\$ 1,401,618</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Housing Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ -	\$ -	\$ 115,297	\$ 115,297
Use of Money and Property	-	-	23,951	23,951
Other Revenues	-	-	23,140	23,140
Total Revenues	-	-	162,388	162,388
EXPENDITURES				
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues over Expenditures	-	-	162,388	162,388
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	-	162,388	162,388
Fund Balance, Beginning of Year	7,246,554	7,246,554	7,246,554	-
Fund Balance, End of Year	<u>\$ 7,246,554</u>	<u>\$ 7,246,554</u>	<u>\$ 7,408,942</u>	<u>\$ 162,388</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Transnet Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenues	\$ 713,000	\$ 713,000	\$ 2,077,808	\$ 1,364,808
Other	-	-	-	-
Total Revenues	<u>713,000</u>	<u>713,000</u>	<u>2,077,808</u>	<u>1,364,808</u>
EXPENDITURES				
Current:				
Public Works	90,010	90,010	78,187	11,823
Capital Outlay	622,940	622,940	565,288	57,652
Total Expenditures	<u>712,950</u>	<u>712,950</u>	<u>643,475</u>	<u>69,475</u>
Excess (Deficiency) of Revenues over Expenditures	<u>50</u>	<u>50</u>	<u>1,434,333</u>	<u>1,434,283</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	50	50	1,434,333	1,434,283
Fund Balance, Beginning of Year	<u>(1,490,516)</u>	<u>(1,490,516)</u>	<u>(1,490,516)</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ (1,490,466)</u></u>	<u><u>\$ (1,490,466)</u></u>	<u><u>\$ (56,183)</u></u>	<u><u>\$ 1,434,283</u></u>

**City of Lemon Grove
Required Supplementary Information
Year Ended June 30, 2019**

**Schedule of the City's Proportionate Share of the Net Pension Liability
Last 10 Years***

<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a % of Payroll</u>	<u>Plan Fiduciary Net Position as a % of the Total Pension Liability</u>
2018	0.077492%	\$ 7,557,212	\$ 4,285,339	176.35%	77.89%
2017	0.077492%	7,685,061	4,129,783	186.09%	76.39%
2016	0.077112%	6,672,556	3,966,818	168.21%	74.06%
2015	0.102377%	7,027,037	4,140,577	169.71%	78.40%
2014	0.101819%	6,335,672	3,916,214	161.78%	79.82%

*Fiscal year 2015 was the first year of implementation; therefore, 10 years of information are not yet available.

Notes to the Schedule of the City's Proportionate Share of the Net Pension Liability

Benefit Changes: None

Changes in Assumptions: In 2017, the accounting discount rate changed from 7.65% to 7.15%

**City of Lemon Grove
Required Supplementary Information
Year Ended June 30, 2019**

**Schedule of Pension Plan Contributions
Last 10 Years***

Fiscal Year	Contractually Required Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency/ (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2019	\$ 962,913	\$ (962,913)	\$ -	\$ 3,915,557	24.59%
2018	894,949	(894,949)	-	4,285,339	20.88%
2017	813,911	(813,911)	-	4,129,783	19.71%
2016	909,279	(2,737,595)	(1,828,316)	3,966,818	69.01%
2015	929,245	(1,194,245)	(265,000)	3,854,444	30.98%

*Fiscal year 2015 was the first year of implementation; therefore, 10 years of information are not yet available.

Notes to the Schedule of Plan Contributions

Valuation Date: 6/30/13, 6/30/14, 6/30/15, 6/30/16 and 6/30/17

**City of Lemon Grove
Required Supplementary Information
Year Ended June 30, 2019**

**Schedule of Changes in the City's
Total OPEB Liability and Related Ratios
Last Ten Years (or years for which information is available)**

	Measurement Period	
	2019	2018
Total OPEB Liability		
Service cost	\$ 114,804	\$ 111,460
Interest on total OPEB liability	152,187	144,569
Changes in benefit terms	-	-
Differences between expected and actual experience	(14,999)	(6,897)
Changes of assumptions	193,343	(139,883)
Benefit payments	(224,968)	(219,256)
Net change in total OPEB liability	220,367	(110,007)
Total OPEB liability - beginning	3,907,420	4,017,427
Total OPEB liability - ending (a)	<u>\$ 4,127,787</u>	<u>\$ 3,907,420</u>
Covered-employee payroll	\$ 4,347,161	\$ 4,220,545
Total OPEB liability as a percentage of covered-employee payroll	94.95%	92.58%

Notes to the schedule:

No assets are accumulated in a trust that meets the criteria in GASBS No. 75, paragraph 4, to pay related benefits.

Changes of assumptions - Changes of assumptions reflect a change in the discount rate from 3.60 percent at July 1, 2017 to 3.90 percent at June 30, 2018 and 3.50 percent at June 30, 2019.

**City of Lemon Grove
Required Supplementary Information
Year Ended June 30, 2019**

1. BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgetary Control and Budgetary Accounting*

The City Council approves each fiscal year's budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the council. Supplemental appropriations, where required during the period, are also approved by the Council. Budget transfers that affect the total appropriations for any fund require City Council approval. Budget transfers within a budget code with no change in appropriation within the budget code are approved by the City Manager only and do not require approval by the City Council. A budget code could be a program, or a division of a City, or a City. In most cases, expenditures may not legally exceed appropriations at the budget code level for the General Fund, and fund level for Special Revenue, Capital Projects, and Debt Service Funds.

At fiscal year-end, all operating budget appropriations lapse with the exception of encumbered and continuing appropriations.

Budgets are adopted for all funds.

B. *Encumbrances*

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, Special Revenue, and Capital Projects funds. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in-process at fiscal year-end are completed. They do not constitute expenditures or estimated liabilities.

C. *Continuing Appropriations*

The unexpected and unencumbered appropriations that are available and recommended for continuation are approved by the City Council for carryover to the following fiscal year.

D. *Budget Basis of Accounting*

Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (US GAAP).

SUPPLEMENTARY INFORMATION

**City of Lemon Grove
Non-major Governmental Funds
Year Ended June 30, 2018**

Special Revenue Funds

Gas Tax Fund is supported by revenue from the State gas tax fund. Fund proceeds may be used to research, plan, construct, improve, maintain and operate local streets.

Parkland Dedication Fund accounts for fees in-lieu of dedicating park land that are to be used for the purchase of park land, the development of new parks, or the major rehabilitation of existing parks.

Supplemental Law Enforcement Service Fund accounts for State grant proceeds to be used to augment the staffing level of Sheriff deputies.

Sundry Grants Fund accounts for grants currently being administered by the City.

CDBG Fund accounts for grant proceeds from the Community Development Block Grant program. Funds are expended and then reimbursed by the County of San Diego.

TDA Fund accounts for transit proceeds allocated from MTS for maintenance of landscaping along the trolley corridor and maintenance of trolley stations and bus shelters throughout the City.

Lighting District Fund accounts for activities relating to the Roadway Lighting District which provides for street light benefits and enhanced lighting benefits.

Storm Water Fund accounts for designated storm water program fees and support the City's storm water program - a State and Federal mandated program.

Household Hazardous Waste Fund accounts for the City's household hazardous waste disposal program. This program is supported by AB 939 funds which are collected for this and recycling related programs. The City relies on this fund for contractual services to provide household hazardous waste events and to promote a higher level of recycling within the City.

Wild Flower Assessment Fund accounts for the Wildflower Landscaping Maintenance Assessment District.

PEG (Public/Education/Government) Fund accounts for designated monies from cable franchisees that operate within the City. The use of these monies is restricted to capital items that enhance or facilitate public access to government information.

Serious Traffic Offender Fund accounts for impound fees to pay for Sheriff traffic division overtime and other traffic related expenses.

Capital Project Funds

Street Construction Fund accounts for amounts which are restricted for larger street projects.

Sidewalk Reserve Fund accounts for amounts restricted for larger sidewalk projects.

Main Street Promenade CFD Fund accounts for voter-approved assessments for capital improvements.

Safety Capital Purchases Fund accounts for one-time "SAFE" program monies restricted for public safety capital expenditures.

Transportation Mitigation Fund accounts for fees related to the passage of the Transnet extension. These fees represent per housing unit fees for new residential development. Expenditures from this fund are to be used to initiate street improvement projects on a major arterial within the City.

**City of Lemon Grove
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2019**

	Special Revenue			
	Gas Tax	Parkland Dedication	Supplemental Law Enforcement Service	Sundry Grants
ASSETS				
Cash and Investments	\$ 428,927	\$ 84,040	\$ 37,462	\$ 70,228
Accounts Receivable	89,772	410	-	358
Prepays	60	-	-	-
Total Assets	<u>\$ 518,759</u>	<u>\$ 84,450</u>	<u>\$ 37,462</u>	<u>\$ 70,586</u>
LIABILITIES				
Accounts Payable	\$ 275,036	\$ -	\$ -	\$ 12,996
Accrued Liabilities	11,561	-	-	-
Deposits	-	-	-	-
Due to Other Funds	-	-	-	-
Unearned Revenue	-	-	-	-
Total Liabilities	<u>286,597</u>	<u>-</u>	<u>-</u>	<u>12,996</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues - Grants Receivable	-	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICITS)				
Restricted	232,162	84,450	37,462	57,590
Committed	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>232,162</u>	<u>84,450</u>	<u>37,462</u>	<u>57,590</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	<u>\$ 518,759</u>	<u>\$ 84,450</u>	<u>\$ 37,462</u>	<u>\$ 70,586</u>

Special Revenue

CDBG	TDA	Lighting District	Storm Water	Household Hazardous Waste	Wild Flower Assessment
\$ -	\$ -	\$ 322,219	\$ -	\$ 226,438	\$ 3,671
173,108	90,397	6,092	-	3,163	20
-	-	-	3,558	-	-
<u>\$ 173,108</u>	<u>\$ 90,397</u>	<u>\$ 328,311</u>	<u>\$ 3,558</u>	<u>\$ 229,601</u>	<u>\$ 3,691</u>
\$ 9,508	\$ 4,073	\$ 26,820	\$ 400	\$ 380	\$ 800
-	706	2,293	33	121	172
-	-	-	-	63,538	-
163,600	7,591	-	3,390	-	-
-	-	-	-	-	-
<u>173,108</u>	<u>12,370</u>	<u>29,113</u>	<u>3,823</u>	<u>64,039</u>	<u>972</u>
173,108	90,376	-	-	-	-
<u>173,108</u>	<u>90,376</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	299,198	-	165,562	2,719
-	-	-	-	-	-
<u>(173,108)</u>	<u>(12,349)</u>	<u>-</u>	<u>(265)</u>	<u>-</u>	<u>-</u>
<u>(173,108)</u>	<u>(12,349)</u>	<u>299,198</u>	<u>(265)</u>	<u>165,562</u>	<u>2,719</u>
<u>\$ 173,108</u>	<u>\$ 90,397</u>	<u>\$ 328,311</u>	<u>\$ 3,558</u>	<u>\$ 229,601</u>	<u>\$ 3,691</u>

Continued

**City of Lemon Grove
Combining Balance Sheet
Non-major Governmental Funds - Continued
June 30, 2019**

	Special Revenue		Capital Projects	
	PEG (Public/ Education/ Government)	Serious Traffic Offender Program	Street Construction	Sidewalk Reserve
ASSETS				
Cash and Investments	\$ 282,293	\$ 35,145	\$ -	\$ 24,053
Accounts Receivable	15,532	818	-	117
Prepays	-	-	-	-
Total Assets	\$ 297,825	\$ 35,963	\$ -	\$ 24,170
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	66	-	-
Deposits	-	-	-	-
Due to Other Funds	-	-	-	-
Unearned Revenue	-	-	-	-
Total Liabilities	-	66	-	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenues - Grants Receivable	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
FUND BALANCE (DEFICITS)				
Restricted	297,825	35,897	-	24,170
Committed	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	297,825	35,897	-	24,170
Total Liabilities, Deferred Inflows of Resources and Fund Balances (Deficits)	\$ 297,825	\$ 35,963	\$ -	\$ 24,170

Capital Projects			
Main Street Promenade CFD	Safety Capital Purchases	Transportation Mitigation	Total Non-major Governmental Funds
\$ 11,258	\$ 57,326	\$ 19	\$ 1,583,079
57	17,067	-	396,911
-	-	-	3,618
<u>\$ 11,315</u>	<u>\$ 74,393</u>	<u>\$ 19</u>	<u>\$ 1,983,608</u>
\$ 182	\$ 25,730	\$ -	\$ 355,925
-	-	-	14,952
-	-	-	63,538
-	-	-	174,581
-	-	-	-
<u>182</u>	<u>25,730</u>	<u>-</u>	<u>608,996</u>
-	-	-	263,484
-	-	-	263,484
11,133	48,663	19	1,296,850
-	-	-	-
-	-	-	(185,722)
<u>11,133</u>	<u>48,663</u>	<u>19</u>	<u>1,111,128</u>
<u>\$ 11,315</u>	<u>\$ 74,393</u>	<u>\$ 19</u>	<u>\$ 1,983,608</u>

City of Lemon Grove
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
Year Ended June 30, 2019

	Special Revenue			
	Gas Tax	Parkland Dedication	Supplemental Law Enforcement Service	Sundry Grants
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues	1,053,536	-	148,747	35,358
Charges for Services	-	16,515	-	-
Use of Money and Property	6,501	2,219	-	2,189
Other	-	-	-	-
Total Revenues	<u>1,060,037</u>	<u>18,734</u>	<u>148,747</u>	<u>37,547</u>
EXPENDITURES				
Current:				
General Government	-	-	-	-
Public Safety	-	-	180,000	32,250
Public Works	493,616	-	-	-
Community Development	-	-	-	19,066
Capital Outlay	388,157	-	-	-
Total Expenditures	<u>881,773</u>	<u>-</u>	<u>180,000</u>	<u>51,316</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>178,264</u>	<u>18,734</u>	<u>(31,253)</u>	<u>(13,769)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	178,264	18,734	(31,253)	(13,769)
Fund Balances, Beginning of Year	<u>53,898</u>	<u>65,716</u>	<u>68,715</u>	<u>71,359</u>
Fund Balances, End of Year	<u>\$ 232,162</u>	<u>\$ 84,450</u>	<u>\$ 37,462</u>	<u>\$ 57,590</u>

Special Revenue

CDBG	TDA	Lighting District	Storm Water	Household Hazardous Waste	Wild Flower Assessment
\$ -	\$ -	\$ 299,872	\$ -	\$ 26,633	\$ 10,050
-	120,850	-	-	-	-
-	-	-	61,552	-	-
-	1,278	15,853	-	5,804	61
-	-	-	-	15,601	-
-	122,128	315,725	61,552	48,038	10,111
-	-	-	-	1,200	-
-	-	-	-	-	-
-	35,552	341,690	150,798	-	9,032
-	-	-	-	10,895	100
173,108	292,225	-	-	-	-
173,108	327,777	341,690	150,798	12,095	9,132
(173,108)	(205,649)	(25,965)	(89,246)	35,943	979
-	-	-	88,716	-	-
-	-	-	-	-	-
-	-	-	88,716	-	-
(173,108)	(205,649)	(25,965)	(530)	35,943	979
-	193,300	325,163	265	129,619	1,740
<u>\$ (173,108)</u>	<u>\$ (12,349)</u>	<u>\$ 299,198</u>	<u>\$ (265)</u>	<u>\$ 165,562</u>	<u>\$ 2,719</u>

Continued

City of Lemon Grove
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
Year Ended June 30, 2019

	Special Revenue		Capital Projects	
	PEG (Public/ Education/ Government)	Serious Traffic Offender Program	Street Construction	Sidewalk Reserve
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenues	-	-	-	-
Charges for Services	57,285	-	-	-
Use of Money and Property	7,511	947	912	661
Other	-	4,290	-	-
Total Revenues	64,796	5,237	912	661
EXPENDITURES				
Current:				
General Government	34,780	-	-	-
Public Safety	-	2,443	-	-
Public Works	-	-	-	-
Community Development	-	-	-	-
Capital Outlay	-	-	133,213	-
Total Expenditures	34,780	2,443	133,213	-
Excess (Deficiency) of Revenues Over Expenditures	30,016	2,794	(132,301)	661
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	30,016	2,794	(132,301)	661
Fund Balances, Beginning of Year	267,809	33,103	132,301	23,509
Fund Balances, End of Year	\$ 297,825	\$ 35,897	\$ -	\$ 24,170

Capital Projects			
Main Street Promenade CFD	Safety Capital Purchases	Transportation Mitigation	Total Non-major Governmental Funds
\$ 11,694	\$ -	\$ -	\$ 348,249
-	-	-	1,358,491
-	-	52,888	188,240
221	-	2,012	46,169
-	-	-	19,891
<u>11,915</u>	<u>-</u>	<u>54,900</u>	<u>1,961,040</u>
-	-	-	35,980
-	-	-	214,693
6,810	8,662	-	1,046,160
-	-	-	30,061
-	-	629,081	1,615,784
<u>6,810</u>	<u>8,662</u>	<u>629,081</u>	<u>2,942,678</u>
<u>5,105</u>	<u>(8,662)</u>	<u>(574,181)</u>	<u>(981,638)</u>
-	-	-	88,716
-	-	-	-
-	-	-	88,716
5,105	(8,662)	(574,181)	(892,922)
<u>6,028</u>	<u>57,325</u>	<u>574,200</u>	<u>2,004,050</u>
<u>\$ 11,133</u>	<u>\$ 48,663</u>	<u>\$ 19</u>	<u>\$ 1,111,128</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Gas Tax Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental Revenue	\$ 1,008,009	\$ 1,053,536	\$ 45,527
Use of Money and Property	-	6,501	6,501
Total Revenues	<u>1,008,009</u>	<u>1,060,037</u>	<u>52,028</u>
EXPENDITURES			
Current:			
Public Works	568,954	493,616	75,338
Capital Outlay	525,000	388,157	136,843
Total Expenditures	<u>1,093,954</u>	<u>881,773</u>	<u>212,181</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(85,945)</u>	<u>178,264</u>	<u>264,209</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(85,945)	178,264	264,209
Fund Balance, Beginning of Year	<u>53,898</u>	<u>53,898</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ (32,047)</u></u>	<u><u>\$ 232,162</u></u>	<u><u>\$ 264,209</u></u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Parkland Dedication Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Charges for Services	\$ 15,000	\$ 16,515	\$ 1,515
Use of Money and Property	700	2,219	1,519
Total Revenues	<u>15,700</u>	<u>18,734</u>	<u>3,034</u>
EXPENDITURES			
Capital Outlay	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total Expenditures	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,300)</u>	<u>18,734</u>	<u>23,034</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(4,300)	18,734	23,034
Fund Balance, Beginning of Year	<u>65,716</u>	<u>65,716</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 61,416</u></u>	<u><u>\$ 84,450</u></u>	<u><u>\$ 23,034</u></u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Supplemental Law Enforcement Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental Revenues	\$ 148,000	\$ 148,747	\$ 747
Total Revenues	148,000	148,747	747
EXPENDITURES			
Current:			
Public Safety	180,000	180,000	-
Excess (Deficiency) of Revenues over Expenditures	(32,000)	(31,253)	747
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(32,000)	(31,253)	747
Fund Balance, Beginning of Year	68,715	68,715	-
Fund Balance, End of Year	<u>\$ 36,715</u>	<u>\$ 37,462</u>	<u>\$ 747</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Sundry Grants Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental Revenues	\$ 51,196	\$ 35,358	\$ (15,838)
Use of Money and Property	50	2,189	2,139
Total Revenues	<u>51,246</u>	<u>37,547</u>	<u>(13,699)</u>
EXPENDITURES			
Current:			
Public Safety	18,196	32,250	14,054
Community Development	60,046	19,066	(40,980)
Total Expenditures	<u>78,242</u>	<u>51,316</u>	<u>26,926</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(26,996)</u>	<u>(13,769)</u>	<u>13,227</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	(4,221)	-	4,221
Total Other Financing Sources (Uses)	<u>(4,221)</u>	<u>-</u>	<u>4,221</u>
Net Change in Fund Balances	(31,217)	(13,769)	17,448
Fund Balance, Beginning of Year	71,359	71,359	-
Fund Balance, End of Year	<u>\$ 40,142</u>	<u>\$ 57,590</u>	<u>\$ 17,448</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - CDBG Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental Revenue	\$ 229,060	\$ -	\$ (229,060)
Total Revenues	<u>229,060</u>	<u>-</u>	<u>(229,060)</u>
EXPENDITURES			
Capital Outlay	<u>229,060</u>	<u>173,108</u>	<u>55,952</u>
Total Expenditures	<u>229,060</u>	<u>173,108</u>	<u>55,952</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>(173,108)</u>	<u>(173,108)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	-	(173,108)	(173,108)
Fund Balance, Beginning of Year	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ (173,108)</u>	<u>\$ (173,108)</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - TDA Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental Revenue	\$ 121,170	\$ 120,850	\$ (320)
Use of Money and Property	100	1,278	1,178
Total Revenues	<u>121,270</u>	<u>122,128</u>	<u>858</u>
EXPENDITURES			
Current:			
Public Works	40,351	35,552	4,799
Capital Outlay	<u>322,400</u>	<u>292,225</u>	<u>30,175</u>
Total Expenditures	<u>362,751</u>	<u>327,777</u>	<u>34,974</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(241,481)</u>	<u>(205,649)</u>	<u>35,832</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(241,481)	(205,649)	35,832
Fund Balance, Beginning of Year	<u>193,300</u>	<u>193,300</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ (48,181)</u></u>	<u><u>\$ (12,349)</u></u>	<u><u>\$ 35,832</u></u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Lighting District Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 275,000	\$ 299,872	\$ 24,872
Use of Money and Property	3,550	15,853	12,303
Total Revenues	<u>278,550</u>	<u>315,725</u>	<u>37,175</u>
EXPENDITURES			
Current:			
Public Works	<u>333,604</u>	<u>341,690</u>	<u>(8,086)</u>
Total Expenditures	<u>333,604</u>	<u>341,690</u>	<u>(8,086)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(55,054)</u>	<u>(25,965)</u>	<u>29,089</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(55,054)	(25,965)	29,089
Fund Balance, Beginning of Year	<u>325,163</u>	<u>325,163</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 270,109</u>	<u>\$ 299,198</u>	<u>\$ 29,089</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Storm Water Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Charges for Services	\$ 61,000	\$ 61,552	\$ 552
Total Revenues	<u>61,000</u>	<u>61,552</u>	<u>552</u>
EXPENDITURES			
Current:			
Public Works	<u>229,567</u>	<u>150,798</u>	<u>78,769</u>
Total Expenditures	<u>229,567</u>	<u>150,798</u>	<u>78,769</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(168,567)</u>	<u>(89,246)</u>	<u>79,321</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	168,567	88,716	(79,851)
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>168,567</u>	<u>88,716</u>	<u>(79,851)</u>
Net Change in Fund Balances	-	(530)	(530)
Fund Balance, Beginning of Year	<u>265</u>	<u>265</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 265</u>	<u>\$ (265)</u>	<u>\$ (530)</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Household Hazardous Waste Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 24,000	\$ 26,633	\$ 2,633
Use of Money and Property	1,000	5,804	4,804
Other	-	15,601	15,601
Total Revenues	<u>25,000</u>	<u>48,038</u>	<u>23,038</u>
EXPENDITURES			
Current:			
General Government	1,200	1,200	-
Community Development	38,624	10,895	27,729
Total Expenditures	<u>39,824</u>	<u>12,095</u>	<u>27,729</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(14,824)</u>	<u>35,943</u>	<u>50,767</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(14,824)	35,943	50,767
Fund Balance, Beginning of Year	<u>129,619</u>	<u>129,619</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 114,795</u></u>	<u><u>\$ 165,562</u></u>	<u><u>\$ 50,767</u></u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Wildflower Assessment Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 9,650	\$ 10,050	\$ 400
Use of Money and Property	20	61	41
Total Revenues	<u>9,670</u>	<u>10,111</u>	<u>441</u>
EXPENDITURES			
Current:			
Public Works	10,610	9,032	1,578
Community Development	100	100	-
Total Expenditures	<u>10,710</u>	<u>9,132</u>	<u>1,578</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,040)</u>	<u>979</u>	<u>2,019</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(1,040)	979	2,019
Fund Balance, Beginning of Year	1,740	1,740	-
Fund Balance, End of Year	<u>\$ 700</u>	<u>\$ 2,719</u>	<u>\$ 2,019</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - PEG Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Charges for Services	\$ 60,400	\$ 57,285	\$ (3,115)
Use of Money and Property	1,500	7,511	6,011
Total Revenues	<u>61,900</u>	<u>64,796</u>	<u>2,896</u>
EXPENDITURES			
Current:			
General Government	40,000	34,780	5,220
Capital Outlay	-	-	-
Total Expenditures	<u>40,000</u>	<u>34,780</u>	<u>5,220</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>21,900</u>	<u>30,016</u>	<u>8,116</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	21,900	30,016	8,116
Fund Balance, Beginning of Year	<u>267,809</u>	<u>267,809</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 289,709</u></u>	<u><u>\$ 297,825</u></u>	<u><u>\$ 8,116</u></u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Serious Traffic Offender Special Revenue Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Use of Money and Property	\$ 200	\$ 947	\$ 747
Other	6,000	4,290	(1,710)
Total Revenues	<u>6,200</u>	<u>5,237</u>	<u>(963)</u>
EXPENDITURES			
Current:			
Public Safety	2,695	2,443	252
Total Expenditures	<u>2,695</u>	<u>2,443</u>	<u>252</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,505</u>	<u>2,794</u>	<u>(711)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	3,505	2,794	(711)
Fund Balance, Beginning of Year	<u>33,103</u>	<u>33,103</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 36,608</u>	<u>\$ 35,897</u>	<u>\$ (711)</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Street Construction Capital Projects Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Use of Money and Property	\$ 500	\$ 912	\$ 412
Total Revenues	500	912	412
EXPENDITURES			
Capital Outlay	160,916	133,213	27,703
Total Expenditures	160,916	133,213	27,703
Excess (Deficiency) of Revenues over Expenditures	(160,416)	(132,301)	28,115
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(160,416)	(132,301)	28,115
Fund Balance, Beginning of Year	132,301	132,301	-
Fund Balance, End of Year	\$ (28,115)	\$ -	\$ 28,115

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Sidewalk Reserve Capital Projects Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Use of Money and Property	\$ 180	\$ 661	\$ 481
Total Revenues	180	661	481
EXPENDITURES			
Capital Outlay	-	-	-
Total Expenditures	-	-	-
Excess (Deficiency) of Revenues over Expenditures	180	661	481
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	180	661	481
Fund Balance, Beginning of Year	23,509	23,509	-
Fund Balance, End of Year	<u>\$ 23,689</u>	<u>\$ 24,170</u>	<u>\$ 481</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Main Street Promenade Community Facilities District
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 11,747	\$ 11,694	\$ (53)
Use of Money and Property	-	221	221
Total Revenues	<u>11,747</u>	<u>11,915</u>	<u>168</u>
EXPENDITURES			
Current:			
Public Works	<u>11,700</u>	<u>6,810</u>	<u>4,890</u>
Total Expenditures	<u>11,700</u>	<u>6,810</u>	<u>4,890</u>
Excess (Deficiency) of Revenues over Expenditures	<u>47</u>	<u>5,105</u>	<u>5,058</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	47	5,105	5,058
Fund Balance, Beginning of Year	<u>6,028</u>	<u>6,028</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 6,075</u></u>	<u><u>\$ 11,133</u></u>	<u><u>\$ 5,058</u></u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Safety Capital Purchases Capital Projects Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental Revenues	\$ -	\$ -	\$ -
Total Revenues	-	-	-
EXPENDITURES			
Current:			
Public Works	20,000	8,662	11,338
Capital Outlay	20,000	-	20,000
Total Expenditures	40,000	8,662	31,338
Excess (Deficiency) of Revenues over Expenditures	(40,000)	(8,662)	31,338
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	(40,000)	(8,662)	31,338
Fund Balance, Beginning of Year	57,325	57,325	-
Fund Balance, End of Year	<u>\$ 17,325</u>	<u>\$ 48,663</u>	<u>\$ 31,338</u>

City of Lemon Grove
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Transportation Mitigation Capital Project Fund
Year Ended June 30, 2019

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Charges for Services	\$ 50,000	\$ 52,888	\$ 2,888
Use of Money and Property	200	2,012	1,812
Total Revenues	<u>50,200</u>	<u>54,900</u>	<u>4,700</u>
EXPENDITURES			
Capital Outlay	<u>629,081</u>	<u>629,081</u>	<u>-</u>
Total Expenditures	<u>629,081</u>	<u>629,081</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(578,881)</u>	<u>(574,181)</u>	<u>4,700</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(578,881)	(574,181)	4,700
Fund Balance, Beginning of Year	<u>574,200</u>	<u>574,200</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ (4,681)</u></u>	<u><u>\$ 19</u></u>	<u><u>\$ 4,700</u></u>

Statistical Section

This part of the City of Lemon Grove's Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the City's overall financial health.

Contents

Financial Trends: these schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

- Net Position by Component
- Changes in Net Position
- Tax Revenue by Source
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

Revenue Capacity: these schedules contain information to help the reader assess the factors affecting the City's ability to generate its property taxes.

- Assessed Value of Taxable Property
- Principal Property Tax Payers
- Property Tax Levies and Collections - General

Debt Capacity: these schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

- Ratios of Outstanding Debt by Type
- Legal Debt Margin Information - City

Demographic and Economic Information: these schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.

- Principal Employers

Operating Information: these schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides.

- Full-Time Equivalent Employees by Function
- Operating Indicators by Function
- Capital Assets Statistics by Function

Sources: Unless otherwise notes, the information in these schedules is derived from the annual financial report for the relevant year.

City of Lemon Grove

Net Position by Component

Last Seven Fiscal Years

(accrual basis of accounting)

	Fiscal Year		
	2013	2014	2015
Governmental Activities			
Invested in capital assets, net of related debt	42,884,125	\$42,652,240	\$ 41,846,096
Restricted	9,048,663	8,040,322	13,303,682
Unrestricted	5,782,409	6,357,413	(292,780)
Total governmental activities net position	<u>57,715,197</u>	<u>57,049,975</u>	<u>54,856,998</u>
Business-type Activities			
Invested in capital assets, net of related debt	5,287,794	5,850,826	5,650,270
Restricted		-	-
Unrestricted	13,849,119	15,314,047	14,949,807
Total business-type activities net position	<u>19,136,913</u>	<u>21,164,873</u>	<u>20,600,077</u>
Primary Government			
Net investment in capital assets	48,171,919	48,503,066	47,496,366
Restricted	9,048,663	8,040,322	13,303,682
Unrestricted	19,631,528	21,671,460	14,657,027
Total primary government net position	<u>\$ 76,852,110</u>	<u>\$78,214,848</u>	<u>\$ 75,457,075</u>

City of Lemon Grove

Net Position by Component (continued)

Last Seven Fiscal Years

(accrual basis of accounting)

Fiscal Year			
2016	2017	2018	2019
\$ 41,548,007	\$ 43,454,713	\$ 44,357,536	\$ 45,064,416
10,320,943	10,630,122	11,151,485	11,012,460
5,342,344	2,132,098	(1,700,781)	(760,899)
<u>57,211,294</u>	<u>56,216,933</u>	<u>53,808,240</u>	<u>55,315,977</u>
5,708,030	6,589,829	7,056,706	7,174,106
-	-	-	553,967
<u>15,409,379</u>	<u>15,351,794</u>	<u>15,314,047</u>	<u>16,569,600</u>
<u>21,117,409</u>	<u>21,941,623</u>	<u>22,370,753</u>	<u>24,297,673</u>
47,256,037	50,044,542	51,414,242	52,238,522
10,320,943	10,630,122	11,151,485	11,566,427
<u>20,751,723</u>	<u>17,483,892</u>	<u>13,613,266</u>	<u>15,808,701</u>
<u>\$ 78,328,703</u>	<u>\$ 78,158,556</u>	<u>\$ 76,178,993</u>	<u>\$ 79,613,650</u>

City of Lemon Grove

Changes in Net Position

Last Seven Fiscal Years

(accrual basis of accounting)

	Fiscal Year		
	2013	2014	2015
Expenses			
Governmental activities:			
General Government	922,962	1,990,375	1,995,938
Public Safety	8,681,889	8,802,464	9,146,101
Public Works	1,821,778	3,386,086	1,613,433
Community Development	495,097	974,490	2,226,068
Interest on long-term debt	3,133	2,766	789
Total governmental activities expenses	<u>11,924,859</u>	<u>15,156,181</u>	<u>14,982,329</u>
Business-type activities:			
Sanitation	4,364,996	4,657,485	3,948,291
Total business-type activities expenses	<u>4,364,996</u>	<u>4,657,485</u>	<u>3,948,291</u>
Total primary government expenses	<u>16,289,855</u>	<u>\$ 19,813,666</u>	<u>\$ 18,930,620</u>
Program Revenues			
Governmental activities:			
Charges for Services			
General Government	87,334	415,728	359,414
Public Safety	406,164	395,513	943,754
Public Works	334,038	353,144	708,119
Community Development	339,475	306,285	250,573
Operating Grants and Contributions	535,785	1,609,715	2,329,068
Capital Grants and Contributions	<u>1,805,280</u>	<u>4,578,565</u>	<u>1,540,883</u>
Total governmental activities program revenues	<u>3,508,076</u>	<u>7,658,950</u>	<u>6,131,811</u>
Business-type activities:			
Charges for Services	<u>5,571,705</u>	<u>5,872,436</u>	<u>6,573,926</u>
Total business-type activities program revenues	<u>5,571,705</u>	<u>5,872,436</u>	<u>6,573,926</u>
Total primary government program revenues	<u>9,079,781</u>	<u>\$ 13,531,386</u>	<u>\$ 12,705,737</u>
Net (Expense)/Revenue			
Governmental activities	(8,416,783)	(7,497,231)	(8,850,518)
Business-type activities	<u>1,206,709</u>	<u>1,214,951</u>	<u>2,625,635</u>
Total primary government net (expense)/revenue	<u>(7,210,074)</u>	<u>(6,282,280)</u>	<u>(6,224,883)</u>

	Fiscal Year		
	2013	2014	2015
General Revenues and Other Changes in Net Position			
Governmental Activities:			
Taxes:			
Property Taxes	4,082,435	4,013,905	3,786,926
Sales Taxes	3,897,070	4,294,760	3,800,925
Transient Occupancy Taxes	36,756	39,392	44,525
Franchise Taxes	889,320	923,592	962,845
Motor Vehicle in Lieu Taxes	13,395	11,086	2,027,437
Investment Earnings	374,463	38,158	10,795
Miscellaneous	144,389	27,986	-
Transfers	-	1,506,682	648,500
Total governmental activities	<u>9,437,828</u>	<u>10,855,561</u>	<u>11,281,953</u>
Business-type Activities:			
Investment Earnings	33,710	33,680	36,677
Transfers	-	-	(648,500)
Total business-type activities	<u>33,710</u>	<u>33,680</u>	<u>(611,823)</u>
Total primary government	<u>9,471,538</u>	<u>10,889,241</u>	<u>10,670,130</u>
Change in Net Position			
Governmental activities	1,021,045	3,358,330	2,431,435
Business-type activities	1,240,419	1,248,631	2,013,812
Total primary government	<u>\$ 2,261,464</u>	<u>\$ 4,606,961</u>	<u>\$ 4,445,247</u>

City of Lemon Grove

Changes in Net Position (continued)

Last Seven Fiscal Years

(accrual basis of accounting)

Fiscal Year			
2016	2017	2018	2019
913,892	1,543,159	2,788,081	935,586
8,858,907	9,884,392	10,703,373	11,255,122
3,975,465	4,990,867	3,129,413	4,410,543
1,299,116	882,340	767,367	751,601
-	-	-	
<u>15,047,380</u>	<u>17,300,758</u>	<u>17,388,234</u>	<u>17,352,852</u>
5,194,291	4,690,722	4,642,513	5,489,606
5,194,291	4,690,722	4,642,513	5,489,606
<u>\$ 20,241,671</u>	<u>\$ 21,991,480</u>	<u>\$ 22,030,747</u>	<u>\$ 22,842,458</u>
468,405	419,353	329,566	768,795
518,866	744,377	1,080,647	752,784
637,507	109,556	114,917	501,379
216,744	583,702	778,438	767,271
1,424,488	712,587	1,190,544	1,705,356
2,043,592	4,991,543	1,851,065	1,041,111
<u>5,309,602</u>	<u>7,561,118</u>	<u>5,345,177</u>	<u>5,536,696</u>
6,312,436	6,121,851	6,470,933	6,846,373
6,312,436	6,121,851	6,470,933	6,846,373
<u>\$ 11,622,038</u>	<u>\$ 13,682,969</u>	<u>\$ 11,816,110</u>	<u>\$ 12,383,069</u>
(9,737,778)	(9,739,640)	(12,043,057)	(11,816,156)
1,118,145	1,431,129	1,828,420	1,356,767
<u>(8,619,633)</u>	<u>(8,308,511)</u>	<u>(10,214,637)</u>	<u>(10,459,389)</u>

Fiscal Year			
2016	2017	2018	2019
2,650,773	2,454,561	2,643,372	2,860,769
5,388,718	5,176,561	5,430,108	5,991,547
53,184	52,043	53,413	53,761
965,068	938,714	994,365	1,021,549
2,135,491	2,272,050	2,443,116	2,621,478
261,750	28,321	51,876	150,581
131,113	497,209	64,370	465,704
652,400	652,400	589,294	(22,536)
<u>12,238,497</u>	<u>12,071,859</u>	<u>12,269,914</u>	<u>13,142,853</u>
131,711	103,386	154,186	547,617
(652,400)	(652,400)	(589,294)	22,536
<u>(520,689)</u>	<u>(549,014)</u>	<u>(435,108)</u>	<u>570,153</u>
<u>11,717,808</u>	<u>11,522,845</u>	<u>11,834,806</u>	<u>13,713,006</u>
2,500,719	2,332,219	226,857	1,326,697
597,456	882,115	1,393,312	1,926,920
<u>\$ 3,098,175</u>	<u>\$ 3,214,334</u>	<u>\$ 1,620,169</u>	<u>\$ 3,253,617</u>

City of Lemon Grove

Tax Revenues by Source, Governmental Activities

Last Seven Fiscal Years

(accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property</u>	<u>Sales</u>	<u>Transient Occupancy</u>	<u>Franchises</u>	<u>Motor Vehicle In Lieu</u>	<u>Total</u>
2013	2,035,659	3,897,070	36,756	889,320	1,886,844	8,745,649
2014	2,064,568	4,294,760	39,392	923,592	1,940,667	9,262,979
2015	3,786,926	3,800,925	44,525	962,845	2,027,437	10,622,658
2016	2,650,773	5,388,718	53,184	965,068	2,135,491	11,193,234
2017	2,454,561	5,176,561	52,043	938,714	2,272,050	10,893,929
2018	2,643,372	5,430,108	53,413	994,365	2,443,116	11,564,374
2019	2,860,769	5,991,547	53,761	1,021,549	2,621,478	12,549,104
Change 2012-2019	41%	54%	46%	15%	39%	43%

THIS PAGE INTENTIONALLY LEFT BLANK

City of Lemon Grove

Fund Balances, Governmental Funds

Last Seven Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year			
	2013	2014	2015	2016
General Fund				
Nonspendable	3,191,052	3,210,420	3,272,823	3,820,517
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	2,894,023	3,411,395	4,234,784	4,641,085
Total General Fund	<u>6,085,075</u>	<u>6,621,815</u>	<u>7,507,607</u>	<u>8,461,602</u>
All Other Governmental Funds				
Nonspendable	-	-	-	-
Restricted	1,228,606	1,028,146	8,613,964	8,665,398
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(1,379,913)	(1,202,533)	(128,680)	(933,889)
Total all other governmental funds	<u>(151,307)</u>	<u>(174,387)</u>	<u>8,485,284</u>	<u>7,731,509</u>
Total Governmental Funds	<u>\$ 5,933,768</u>	<u>\$ 6,447,428</u>	<u>\$ 15,992,891</u>	<u>\$ 16,193,111</u>

City of Lemon Grove

Fund Balances, Governmental Funds (continued)

Last Seven Fiscal Years

(modified accrual basis of accounting)

Fiscal Year		
2017	2018	2019
8,578	20,828	110,275
-	-	94,048
-	-	-
-	-	-
5,288,540	5,455,171	6,076,600
<u>5,297,118</u>	<u>5,475,999</u>	<u>6,280,923</u>
-	-	-
9,111,912	9,250,604	8,705,792
-	-	-
-	-	-
(789,480)	(1,490,516)	(241,905)
<u>8,322,432</u>	<u>7,760,088</u>	<u>8,463,887</u>
<u>\$ 13,619,550</u>	<u>\$ 13,236,087</u>	<u>\$ 14,744,810</u>

City of Lemon Grove

Changes in Fund Balances, Governmental Funds

Last Seven Fiscal Years

(modified accrual basis of accounting)

	2013	2014
Revenues:		
Taxes and Special Assessments	8,977,850	9,579,850
Licenses and Permits	405,363	415,580
Fines, Forfeitures and Penalties	72,081	83,373
Intergovernmental Revenues	2,089,065	2,773,635
Charges for Services	951,298	553,785
Use of Money and Property	337,227	340,992
Other	145,296	152,180
Total Revenues	<u>12,978,180</u>	<u>13,899,395</u>
Expenditures:		
Current:		
General Government	868,059	1,878,121
Public Safety	8,608,385	8,800,837
Public Works	1,890,995	2,043,575
Community Development	2,084,534	879,634
Capital Outlay	941,622	1,217,629
Debt Service:		
Principal	18,916	19,391
Interest	3,675	3,231
Pass-through payments	-	-
Total Expenditures	<u>14,416,186</u>	<u>14,842,418</u>
Excess of Revenues over (under) Expenditures	(1,438,006)	(943,023)
Other Financing Sources (Uses)		
Transfers In	-	1,506,682
Transfers Out	-	(50,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,456,682</u>
Net Change in Fund Balances	<u>(1,438,006)</u>	<u>\$ 513,659</u>
Debt service as percentage of noncapital expenditures	0.1%	0.1%

City of Lemon Grove

Changes in Fund Balances, Governmental Funds (continued)

Last Seven Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year				
2015	2016	2017	2018	2019	
10,622,661	11,193,234	11,202,092	11,882,362	12,884,470	
743,558	673,798	464,877	549,632	600,647	
112,387	125,713	229,624	277,486	260,211	
3,345,711	2,511,161	5,527,465	1,984,927	3,750,197	
807,764	760,934	628,332	1,013,845	936,030	
259,035	291,651	290,784	317,528	460,303	
874,148	319,463	504,153	89,166	508,735	
<u>16,765,264</u>	<u>15,875,954</u>	<u>18,847,327</u>	<u>16,114,946</u>	<u>19,400,593</u>	
1,811,784	1,863,692	1,172,468	1,541,965	925,148	
9,146,101	9,281,387	9,734,317	10,569,610	11,117,735	
1,613,433	2,611,575	2,914,942	2,530,657	2,975,335	
1,248,142	1,173,838	750,176	628,428	624,516	
719,280	1,400,021	4,152,944	1,730,355	2,181,072	
22,622	22,621	76,545	78,474	80,452	
-	-	10,143	8,214	6,236	
-	-	-	-	-	
<u>14,561,362</u>	<u>16,353,134</u>	<u>18,811,535</u>	<u>17,087,703</u>	<u>17,910,494</u>	
2,203,902	(477,180)	35,792	(972,757)	1,490,099	
828,500	890,035	1,011,863	869,589	107,340	
(180,000)	(212,635)	(359,463)	(280,295)	(88,716)	
<u>648,500</u>	<u>677,400</u>	<u>652,400</u>	<u>589,294</u>	<u>18,624</u>	
<u>\$ 2,852,402</u>	<u>\$ 200,220</u>	<u>\$ 688,192</u>	<u>\$ (383,463)</u>	<u>\$ 1,508,723</u>	
0.2%	0.2%	0.5%	0.5%	0.5%	

City of Lemon Grove

Schedule of Assessed Valuation Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Dry Farm</u>	<u>Institutional</u>	<u>Recreational</u>
2010	1,197,726,907	248,888,500	48,740,395	48,823	1,222,473	548,331
2011	1,185,410,452	254,793,833	49,682,820	48,707	6,447,463	559,029
2012	1,212,005,662	252,141,378	48,966,060	49,073	6,265,085	551,145
2013	1,224,815,038	249,255,589	49,342,083	50,054	1,526,895	562,164
2014	1,267,321,315	248,065,737	48,706,700	51,054	2,148,703	573,402
2015	1,335,707,940	253,580,009	49,419,280	51,285	2,984,786	576,000
2016	1,416,970,329	260,281,533	50,122,395	52,308	3,046,070	661,045
2017	1,513,015,900	267,766,616	52,321,004	53,105	1,440,009	596,460
2018	1,640,935,901	280,511,732	55,264,075	54,166	1,401,823	608,386
2019	1,768,300,999	306,952,073	58,396,558	55,249	1,429,855	620,550

Source: San Diego County Assessor 2009/10 - 2018/19 Combined Tax Rolls

City of Lemon Grove

Schedule of Assessed Valuation (continued) Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Vacant</u>	<u>SBE Nonunitary</u>	<u>Unsecured</u>	<u>Total</u>	<u>Total Direct Rate</u>
2010	21,157,181	185,698	56,298,706	1,574,819,024	0.3186%
2011	20,790,695	185,698	54,479,233	1,572,399,941	0.3202%
2012	20,513,105	185,698	53,101,284	1,593,780,502	0.3184%
2013	20,793,432	185,698	55,502,436	1,602,035,402	0.3179%
2014	26,370,679	185,698	54,255,944	1,647,681,246	0.1577%
2015	25,721,861	185,698	53,060,383	1,721,289,257	0.1529%
2016	29,711,514	185,698	52,105,351	1,813,138,259	0.1527%
2017	30,538,789	185,698	53,011,755	1,918,931,353	0.1521%
2018	28,155,314	185,698	55,245,950	2,062,365,063	0.1517%
2019	21,703,893	310,770	57,193,680	2,214,965,646	0.1517%

City of Lemon Grove

Principal Property Owners Current and Ten Years Ago

	2019		2009	
	Taxable Assessed Value	% of Total Assessed Valuation	Taxable Assessed Value	% of Total Assessed Valuation
Principal Taxpayers				
ASP Realty	-		\$ 17,629,588	1.12%
Home Depot USA Inc	20,563,453	0.93%	16,673,399	1.06%
Starboard Lemon Grove Dst	19,584,000	0.88%		
EDCO Disposal Corporation	19,138,759	0.86%	16,217,175	1.03%
Celsius Lemon Grove LLC	18,401,900	0.83%		
Retail Portfolio 30-1 LLC	16,046,127	0.72%	14,187,510	0.90%
ABS California -O LLC	14,885,007	0.67%		
TRCMM LLC	-		13,185,819	0.84%
Terrace Gardens LLC	13,519,458	0.61%	11,945,369	0.76%
William O Kobusch Revocable Trust	11,428,385	0.52%	12,929,591	0.82%
Miller Family Real Estate	10,000,000	0.45%		
Lemon Grove Holdings LLC	-		9,405,216	0.60%
Food 4 Less of California Inc	9,524,503	0.43%	8,161,960	0.52%
Cox Communications San Diego	-		7,514,866	0.48%
Principal Taxpayer's Totals	\$ 153,091,592	6.90%	\$ 127,850,493	8.13%

Source: San Diego County Assessor Tax Rolls and HdL Coren & Cone

City of Lemon Grove

Property Tax Levies and Collections Last Eight Fiscal Years

Fiscal Year	Total Tax Levy	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections	Total Collections	
		Amount	% of Levy		Amount	% of Levy
2012	1,897,594	1,849,484	97.5%	39,850	1,889,334	99.6%
2013	1,948,684	1,903,574	97.7%	40,561	1,944,135	99.8%
2014	2,039,893	1,986,818	97.4%	34,829	2,021,648	99.1%
2015	2,075,906	2,040,187	98.3%	28,944	2,069,131	99.7%
2016	2,199,719	2,163,332	98.3%	26,963	2,190,295	99.6%
2017	2,341,473	2,298,563	98.2%	26,163	2,324,726	99.3%
2018	2,490,166	2,449,526	98.4%	28,992	2,478,518	99.5%
2019	2,651,596	2,601,502	98.1%	24,641	2,626,144	99.0%

Source: County of San Diego Tax/Revenue Accountability Report

City of Lemon Grove

Ratios of Outstanding Debt by Type Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Capital Lease</u>	<u>Redevelopment Bonds</u>	<u>Total</u>	<u>Population</u>	<u>Debt Per Capita</u>	<u>Percent of Assessed Value¹</u>
2010	116,728	27,290,000	27,406,728	25,320	1,082	1.74%
2011	99,505	27,175,000	27,274,505	25,445	1,072	1.73%
2012	81,446	-	81,446	25,481	3	0.01%
2013	62,500	-	62,500	25,590	2	0.00%
2014	42,644	-	42,644	25,928	2	0.00%
2015	21,833	-	21,833	26,573	1	0.00%
2016	-	-	-	26,647	0	0.00%
2017	325,963	-	325,963	26,959	12	0.02%
2018	247,489	-	247,489	27,068	9	0.01%
2019	167,037	-	167,037	27,208	6	0.01%

¹Assessed value has been used because the value or personal income is not readily available in California

City of Lemon Grove

Legal Debt Margin June 30, 2019

Net assessed value of all taxable property	\$ 2,214,965,646
Conversion percentage	<u>25.00%</u>
Adjusted assessed valuation	553,741,412
Debt limit percentage	<u>15.00%</u>
Debt limit	83,061,212
Total net debt applicable to limit	<u>-</u>
Legal debt margin	<u><u>\$ 83,061,212</u></u>

The City of Lemon Grove has had no indebtedness applicable to the limit during the past ten fiscal years

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 1981-82 fiscal year, each parcel is 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 from the current full valuation to the 25% level that was in effect at the time that the legal debt was enacted by the State of California for local governments located within the state.

City of Lemon Grove

Principal Employers by Employee Size Last Calendar Year

Employer	2018
EDCO Waste Services	1,000 - 4,999
Home Depot	250 - 499
Lemon Grove School District	250 - 499
Albertsons	100 - 249
Aztec Landscaping	100 - 249
Bella Vista Health Center	100 - 249
Lemon Grove Care & Rehab Center	100 - 249
Trident Maritime Systems	100 - 249
Larry H Miller Toyota	50-99
Mossy Honda Lemon Grove	50-99

Source: City of Lemon Grove and ReferenceUSA

City of Lemon Grove

Full-Time Equivalent City Government Employees by Function Last Two Fiscal Years

<u>Function</u>	<u>Fiscal Year</u>	
	<u>2019</u>	<u>2018</u>
General Government	12	12
Public Safety (Fire)	21.5	22.5
Community Development	6	6
Public Works	17.5	18.5
Community Services	7.5	7.5
Sanitation District	<u>5</u>	<u>5</u>
Total	69.5	71.5

Source: City Classification Summary published in the Annual Budget

City of Lemon Grove

Operating Indicators by Function Last Fiscal Year

	<u>Fiscal Year</u>
	<u>2019</u>
Public Safety	
Calls for Service	13,102
Deputy Initiated Actions	7,508
Misdemeanor Arrests	726
Felony Arrests	639
Traffic Citations Written	1,215
Fire	
Fire Calls	114
EMS Calls	3,289
<u>Other Calls</u>	<u>321</u>
Total Emergency Calls	3,724
Fire Inspections	433
Community Development	
Engineering Permits Issued	127
Planning Permits Issued	52
Building Permits Issued	756
Public Works	
Street Resurfacing (lane miles)	10.86
Potholes Patched	249
Graffiti Removal	443
Illegal Dumps Cleared	457
Wastewater	
Average Daily Transportation & Treatment (million gallons)	2.285

Source: City of Lemon Grove Operating Departments & Lemon Grove Sheriff Substation

City of Lemon Grove

Capital Asset Statistics by Function Last Fiscal Year

	<u>Fiscal Year</u>
	<u>2019</u>
Public Safety	
Number of Law Enforcement Stations	1
Number of Fire Stations	1
Public Works	
Miles of Streets	62
Number of St Lights (city owned)	450
Community Services	
Number of Parks	6
Acres of Parks	14.2
Recreation & Senior Centers	2
Utilities	
Miles of Sanitary Sewer	67
Miles of Storm Sewer System	25

Source: City of Lemon Grove Operating Departments

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F
STATE DEPARTMENT OF FINANCE LETTER

[THIS PAGE INTENTIONALLY LEFT BLANK]



November 22, 2019

Ms. Lydia Romero, City Manager
City of Lemon Grove
3232 Main Street
Lemon Grove, CA 91945

Dear Ms. Romero:

Subject: Approval of Oversight Board Action

The City of Lemon Grove Successor Agency (Agency) notified the California Department of Finance (Finance) of its September 19, 2019 Oversight Board (OB) Resolution on September 20, 2019. Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance has completed its review of the OB action.

Based on our review and application of the law, OB Resolution No. 2019-023 (Resolution), approving the issuance and sale by the Agency of tax allocation refunding bonds and approving and authorizing other actions in connection therewith, is approved.

The Agency desires to refund its Lemon Grove Redevelopment Project Area 2007 and 2010 Tax Allocation Bonds under one Lemon Grove Redevelopment Project Area 2019 Tax Allocation Refunding Bond. The refunding is anticipated to achieve approximately \$4,613,391 in savings over the remaining life of the bonds.

Finance's approval is based on its understanding that no refunding bond will be issued unless it meets the requirements outlined in HSC section 34177.5 (a). Following the issuance, the payments for the refunding bond should be placed on the next Recognized Obligation Payment Schedule (ROPS) subject to Finance's review and approval.


To the extent the indebtedness obligations approved for refunding per the Resolution are refunded in accordance with HSC section 34177.5 and prior to the next ROPS submission, the Agency may use Redevelopment Property Tax Trust Funds received for payment of the current obligations being refunded. Any indebtedness for which refunding is finalized must be separately identified as a new item on the ROPS. Further, pursuant to HSC section 34186 (a), the Agency is required to report estimated obligations and actual payments. Any unspent funds should be reported as prior period adjustments.

Additionally, section 5 of the Resolution states that the Agency is authorized to recover its related costs in connection with the transaction approved hereby, irrespective of whether the 2019 Bonds are issued. While Finance does not object to this action, any associated costs not satisfied with the issuance must be placed on a subsequent ROPS, subject to Finance's review and approval.

Ms. Lydia Romero
November 22, 2019
Page 2

Please direct inquiries to Chikako Takagi-Galamba, Manager, or Joshua Mortimer, Supervisor,
at (916) 322-2985.

Sincerely,



JENNIFER WHITAKER
Program Budget Manager

cc: Ms. Molly Brennan, Finance Manager, City of Lemon Grove
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

Upon the issuance of the 2019 Bonds, the Agency proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the SUCCESSOR AGENCY TO THE LEMON GROVE COMMUNITY DEVELOPMENT AGENCY (the “Successor Agency”) in connection with the issuance of \$3,805,000 aggregate principal amount of Successor Agency to the Lemon Grove Community Development Agency Tax Allocation Refunding Bonds, Issue of 2019A (Tax-Exempt) and \$11,695,000 aggregate principal amount of Successor Agency to the Lemon Grove Community Development Agency Tax Allocation Refunding Bonds, Issue of 2019B (Federally Taxable) (collectively, the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2019 (the “Indenture”), by and between the Successor Agency and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds shall be secured by a pledge, charge and lien upon Pledged Tax Revenues (as such term is defined in the Indenture). The Successor Agency covenants and agrees as follows:

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

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

“*Beneficial Owner*” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“*Dissemination Agent*” shall mean Urban Futures, Inc. or any successor Dissemination Agent designated in writing by the Successor Agency and which has filed with the Successor Agency a written acceptance of such designation. In the absence of such a designation, the Successor Agency shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” shall mean 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 which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Participating Underwriter*” shall mean any original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“*Rule*” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Successor Agency for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The Successor Agency shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the Successor Agency's fiscal year (which currently ends on June 30), commencing with the report for the 2018-19 Fiscal Year, which is due not later than March 31, 2020, file with EMMA, in a readable PDF or other 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 cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Successor Agency may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year*. If the Successor Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent*. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the Successor Agency shall provide the Annual Report to the Dissemination Agent (if other than the Successor Agency). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the Successor Agency.

(d) *Report of Non-Compliance*. If the Successor Agency is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the Successor Agency shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the Successor Agency is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification*. The Dissemination Agent shall, if the Dissemination Agent is other than the Successor Agency, file a report with the Successor Agency certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements*. Audited financial statements of the Successor Agency for the preceding fiscal year, prepared in accordance with generally accepted accounting principles. If the Successor Agency's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information*. To the extent not included in the audited financial statements of the Successor Agency, the Annual Report shall also include financial and operating data with respect to the Successor Agency for the preceding fiscal year, as follows:

- (i) The information for the most recent fiscal year substantially in the format set forth under the heading “THE PROJECT AREA—Schedule of Historical Taxable Values and Incremental Revenues.”
- (ii) The information for the most recent fiscal year substantially in the format set forth under the heading “THE PROJECT AREA—Largest Taxpayers.”

(c) *Cross References.* 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 Successor Agency or related public entities, which are available to the public on EMMA. The Successor Agency shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the Successor Agency shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) The Successor Agency 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 Bonds, or other material events affecting the tax status of the Bonds.
- (7) Modifications to rights of Bond 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 Successor Agency or other obligated person.

- (13) The consummation of a merger, consolidation, or acquisition involving the Successor Agency or an obligated person, or the sale of all or substantially all of the assets of the Successor Agency 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 Successor Agency or an obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Successor Agency or an obligated person, any of which affect Bond 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 Successor Agency or an obligated person, any of which reflect financial difficulties.

(b) Whenever the Successor Agency obtains knowledge of the occurrence of a Listed Event, the Successor Agency shall, or shall cause the Dissemination Agent (if not the Successor Agency) 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 a Listed Event 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 Successor Agency 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 Successor Agency 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 Successor Agency obtains knowledge of the occurrence of any of these Listed Events, the Successor Agency 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 Successor Agency 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 Successor Agency 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 Successor Agency, 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 Successor Agency.

(e) For purposes of the events identified in paragraphs (a)(15) and (a)(16) above, the term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). 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 EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

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

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The Successor Agency 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 such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Successor Agency, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Successor Agency pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the Successor Agency. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Successor Agency shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the Successor Agency.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the Successor Agency for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Successor Agency from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Successor Agency, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the Successor Agency or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the Successor Agency. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Successor Agency may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the Successor Agency that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), 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 the type of business conducted.

(b) *Compliance as of Issue Date*. The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Indenture for amendments to the

Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the Successor Agency shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Successor Agency. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Successor Agency 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 Successor Agency 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 Successor Agency 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. In the event of a failure of the Successor Agency to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Successor Agency to comply with their obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Successor Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate was (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the Successor Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it 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 and expenses) 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 the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the Successor Agency under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: [Closing Date]

SUCCESSOR AGENCY TO THE LEMON GROVE
COMMUNITY DEVELOPMENT AGENCY

By _____
Name _____
Title _____

ACKNOWLEDGED:

URBAN FUTURES, INC., as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Successor Agency to the Lemon Grove Community Development Agency
Names of Issues: Successor Agency to the Lemon Grove Community Development Agency Tax
Allocation Refunding Bonds, Issue of 2019
Date of Issuance: [Closing Date]

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

Date: _____

URBAN FUTURES, INC., Dissemination Agent

By _____
Authorized Officer

APPENDIX H

SUPPLEMENTAL INFORMATION—THE CITY OF LEMON GROVE

The following information relating to the City of Lemon Grove (the “City”) and the County of San Diego, California (the “County”) is supplied solely for purposes of information. Neither the City nor the County is obligated in any manner to pay principal of or interest on the 2019 Bonds or to cure any delinquency or default on the 2019 Bonds. The 2019 Bonds are payable solely from the sources described in the Official Statement. The Agency makes no representation as to the accuracy of the information set forth in this Appendix.

City Council

The members of the City Council and the expiration dates of their respective terms are as follows:

CITY OF LEMON GROVE City Council

<i>Name</i>	<i>Term Expires</i>
Racquel Vasquez	2020
David Arambula	2020
Jerry Jones	2022
Jennifer Mendoza	2022
Yadira Altamirano*	2020

*Appointed on December 3, 2019 to fill a vacant seat on the City Council effective December 17, 2019.

The City Council appoints the City Manager who serves as the Chief Executive Officer of the City and supervises the various City services, prepares proposals for the City Council’s consideration and implements the City Council’s policy.

Population

The City’s population as of January 1, 2019 was approximately 27,208. This represents an increase of approximately 0.51 percent from January 1, 2018. The following table shows the population for the City, the County and the State from 2015 through 2019.

POPULATION For Years 2015 through 2018

<i>Year (January 1)</i>	<i>City of Lemon Grove</i>	<i>County of San Diego</i>	<i>State of California</i>
2015	26,573	3,267,992	38,952,462
2016	26,647	3,287,279	39,214,803
2017	26,959	3,309,626	39,504,609
2018	27,068	3,333,128	39,740,508
2019	27,208	3,351,786	39,927,315

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2019, with 2010 Census Benchmark, Sacramento, California, May 2019.

Building Activity

Residential building activity for the past five calendar years for the City is shown in the following tables.

CITY OF LEMON GROVE New Housing Units Building Permits

	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Single Family Units	23	71	2	18	24
Multifamily Units	<u>0</u>	<u>0</u>	<u>100</u>	<u>46</u>	<u>18</u>
Total Units	<u>23</u>	<u>71</u>	<u>102</u>	<u>604</u>	<u>42</u>

Source: Construction Industry Research Board and California Homebuilding Foundation.

CITY OF LEMON GROVE Building Permit Valuations (Dollars in Thousands)

	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Residential					
New Single Family	\$ 6,329	\$ 20,621	\$ 372	\$ 3,510	\$ 4,567
New Multifamily	0	0	13,996	6,037	1,997
Res. Alt. & Adds	<u>1,300</u>	<u>2,073</u>	<u>1,088</u>	<u>1,679</u>	<u>1,973</u>
Total Residential	\$ 7,629	\$ 22,694	\$ 15,456	\$ 11,226	\$ 8,537
Nonresidential					
New Commercial	\$ 0	\$ 0	\$ 264	\$ 0	\$ 769
New Industrial	0	0	0	0	0
New Other ⁽¹⁾	486	1,041	568	1,512	612
Alters. & Adds.	<u>1,595</u>	<u>905</u>	<u>375</u>	<u>1,952</u>	<u>2,257</u>
Total Non-Residential	\$ 2,081	\$ 1,946	\$ 1,207	\$ 3,464	\$ 3,638
Total All Building	<u>\$ 9,710</u>	<u>\$ 24,640</u>	<u>\$ 16,663</u>	<u>\$ 14,690</u>	<u>\$ 12,175</u>

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

Note: "Total All Building" is the sum of Residential and Nonresidential Building Permit Valuations. Totals may not add to sum because of independent rounding.

Source: Construction Industry Research Board and California Homebuilding Foundation.

Personal Income

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

The following tables show the personal income and per capita personal income for the County, State of California and United States from 2012 through 2017.

PERSONAL INCOME
County of San Diego, California, and United States
2012-2017

<i>Year</i>	<i>County of San Diego</i>	<i>California</i>	<i>United States</i>
2012	\$153,444,873	\$1,838,567,162	\$13,904,485,000
2013	159,087,705	1,861,956,514	14,068,960,000
2014	169,896,807	1,986,025,976	14,811,388,000
2015	180,101,999	2,133,664,158	15,547,661,000
2016	186,149,364	2,212,691,221	15,912,777,000
2017 ⁽¹⁾	193,296,405	2,303,870,496	16,413,550,863

Note: Dollars in Thousands.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The following table summarizes per capita personal income for the County, the State of California and the United States for the years 2012-2017. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

PER CAPITA PERSONAL INCOME⁽¹⁾
County of San Diego, State of California, and United States
2012-2017

<i>Year</i>	<i>County of San Diego</i>	<i>California</i>	<i>United States</i>
2012	\$48,256	\$48,826	\$44,599
2013	49,460	49,259	44,851
2014	52,166	52,340	47,060
2015	54,742	55,793	48,985
2016	56,116	57,625	49,883
2017	57,913	60,004	51,731

⁽¹⁾ Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment

The following table summarizes the labor force, employment and unemployment figures over the past five years for the City, the County of San Diego, the State of California and the nation as a whole.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Years 2014 through 2018

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment⁽¹⁾</i>	<i>Civilian Unemployment⁽²⁾</i>	<i>Civilian Unemployment Rate⁽³⁾</i>
2014				
Lemon Grove	12,400	11,300	1,000	8.4%
San Diego County	1,544,300	1,445,100	99,200	6.4
California	18,758,400	17,351,300	1,407,100	7.5
United States ⁽⁴⁾	155,922,000	146,305,000	9,617,000	6.2
2015				
Lemon Grove	12,300	11,500	800	6.8%
San Diego County	1,554,900	1,474,200	80,700	5.2
California	18,896,500	17,724,800	1,171,700	6.2
United States ⁽⁴⁾	157,130,000	148,834,000	8,296,000	5.3
2016				
Lemon Grove	12,300	11,700	700	5.4%
San Diego County	1,570,300	1,496,200	74,100	4.7
California	19,093,700	18,048,800	1,044,800	5.5
United States ⁽⁴⁾	159,187,000	151,436,000	7,751,000	4.9
2017				
Lemon Grove	12,500	11,900	600	4.8%
San Diego County	1,585,000	1,521,500	63,500	4.0
California	19,312,000	18,393,100	918,900	4.8
United States ⁽⁴⁾	160,320,000	153,337,000	6,982,000	4.4
2018				
Lemon Grove	12,600	12,100	500	3.8%
San Diego County	1,592,200	1,539,500	52,700	3.3
California	19,398,200	18,582,800	815,400	4.2
United States ⁽⁴⁾	162,075,000	155,761,000	6,314,000	3.9

Note: Data is not seasonally adjusted.

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

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

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

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, based on March 2018 benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

Employment data by industry is not separately reported on an annual basis for the City but is compiled for the San Diego-Carlsbad MSA (“MSA”). In addition to varied manufacturing employment, the MSA has large and growing commercial and service sector employment, as reflected in the table below.

The following table represents the Annual Average Labor Force and Industry Employment for the County for the period from 2014 through 2018.

**SAN DIEGO CARLSBAD MSA
INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE
2014 through 2018**

	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
Civilian Labor Force	1,540,700	1,550,100	1,564,300	1,574,600	1,592,200
Civilian Employment	1,441,700	1,469,500	1,490,500	1,511,400	1,539,500
Civilian Unemployment	99,000	80,600	73,900	63,200	52,700
Civilian Unemployment Rate	6.4%	5.2%	4.7%	4.0%	3.3%
Total Farm	9,400	9,100	8,900	8,700	9,100
Total Nonfarm	1,344,900	1,385,000	1,422,900	1,452,600	1,484,600
Total Private	1,113,000	1,148,900	1,180,600	1,206,300	1,237,000
Goods Producing	166,700	176,800	185,000	189,200	197,200
Mining & Logging	400	300	300	300	300
Construction	63,900	69,900	76,300	79,500	84,200
Manufacturing	102,400	106,600	108,400	109,400	112,700
Service Providing	1,178,200	1,208,200	1,237,900	1,263,300	1,287,400
Trade, Transportation & Utilities	216,200	219,300	220,900	224,700	225,300
Wholesale Trade	44,900	44,100	43,700	43,800	43,700
Retail Trade	144,300	146,800	147,500	149,000	148,200
Transportation, Warehousing & Utilities	27,000	28,400	29,700	32,000	33,500
Information	24,500	23,800	23,700	24,000	24,000
Financial Activities	69,600	71,400	73,000	74,600	75,900
Professional & Business Services	222,400	229,300	234,500	238,800	248,800
Educational & Health Services	186,100	192,700	198,700	204,300	210,500
Leisure & Hospitality	175,500	182,400	190,400	195,600	199,900
Other Services	52,000	53,200	54,400	55,000	55,400
Government	231,900	236,200	242,200	246,300	247,600
Total, All Industries	<u>1,354,300</u>	<u>1,385,000</u>	<u>1,422,900</u>	<u>1,452,600</u>	<u>1,484,600</u>

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The “Total, All Industries” data is not directly comparable to the employment data found in this Appendix H.

Source: State of California, Employment Development Department, Labor Market Information Division, March 2018 Benchmark.

Commercial Activity

The following table summarizes the annual volume of taxable transactions within the City for the years 2015 through 2018.

**CITY OF LEMON GROVE
TABLE OF TAXABLE TRANSACTIONS
For the Years 2015 Through 2018
(000's)**

<i>Year</i>	<i>Retail Permits</i>	<i>Retail and Food Taxable Transactions</i>	<i>Total Permits</i>	<i>Total Outlets Taxable Transactions</i>
2015	360	\$383,958	557	\$435,319
2016	380	384,752	585	439,490
2017	384	417,044	596	475,935
2018	396	424,201	625	486,165

Source: California Department of Tax and Fee Administration.

APPENDIX I

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN



BAM

**CALIFORNIA
ENDORSEMENT TO
MUNICIPAL BOND
INSURANCE POLICY
NO.**

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

Authorized Officer