

NEW ISSUE—BOOK-ENTRY ONLY

RATING: S&P “AA-”  
See the caption “RATING.”

*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 certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income taxes. See the caption “LEGAL MATTERS—Tax Matters” with respect to tax consequences relating to the Bonds.*

\$62,320,000\*

CITY OF ESCONDIDO  
GENERAL OBLIGATION REFUNDING BONDS  
SERIES 2015 (FIRE, POLICE AND EMERGENCY RESPONSE MEASURE)

**Dated: Date of Delivery**

**Due: September, 1 as shown on the inside cover page**

The City of Escondido General Obligation Refunding Bonds Series 2015 (Fire, Police and Emergency Response Measure) (the “Bonds”) are being issued by the City of Escondido (the “City”) under the provisions of Chapter 4 (commencing with Section 43600) of Division 4 of Title 4 and Articles 9 and 11, Chapter 3, Part 1 of Division 2 of the California Government Code, pursuant to a resolution and supplement thereto, each adopted by the City Council of the City on April 22, 2015 (as supplemented, the “Resolution”). The City has appointed The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent”) to act as paying agent for the Bonds.

The Bonds are being issued to refund the City of Escondido General Obligation Bonds, Election of 2004, Series A (Fire, Police and Emergency Response Measure) (the “Refunded Bonds”) and to pay certain costs of issuance. The Refunded Bonds were authorized at an election of the registered voters of the City held on November 2, 2004, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$84,350,000 principal amount of general obligation bonds to construct, upgrade and acquire land for City fire stations, including an emergency response training center and a combined police and fire headquarters facility (the “Project”). See the caption “THE REFUNDING PLAN.”

The Bonds are general obligations of the City, payable solely from *ad valorem* property taxes levied on behalf of the City and collected by the County of San Diego (the “County”). The City Council is empowered to direct the County, and the County is obligated to levy *ad valorem* taxes for the payment of principal of and interest on the Bonds upon all property subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates). See the caption “SECURITY FOR THE BONDS.”

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). The Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (the “Beneficial Owners”) will not receive physical certificates representing their interest in the Bonds. See the caption “THE BONDS” and Appendix E.

Interest on the Bonds accrues from the date of delivery and is payable semiannually on March 1 and September of each year, commencing March 1, 2016. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the Bonds. See the caption “THE BONDS—Description of the Bonds.”

**The Bonds are subject to optional redemption prior to maturity.** See the caption “THE BONDS—Redemption.”

THIS COVER PAGE CONTAINS INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. POTENTIAL PURCHASERS OF THE BONDS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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MATURITY SCHEDULE – See Inside Cover Page

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*The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Stradling Yocca Carlson and Rauth, a Professional Corporation, Newport Beach, California, is also acting as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City by Jeffrey Epp, Esquire, City Attorney, for the Underwriter by Best Best & Krieger LLP, San Diego, California, and for the Trustee by its counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about June 9, 2015.*

STIFEL

Dated: May \_\_, 2015

\* Preliminary; subject to change.

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

**\$62,320,000\***  
**CITY OF ESCONDIDO**  
**GENERAL OBLIGATION REFUNDING BONDS**  
**SERIES 2015 (FIRE, POLICE AND EMERGENCY RESPONSE MEASURE)**

**MATURITY SCHEDULE**

**BASE CUSIP®† \_\_\_\_\_**

<i><b>Maturity Date (September 1)</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP®†</b></i>
2016	\$	%	%		
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					

\* Preliminary; subject to change.

† 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 Capital IQ. Copyright© 2015 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 City nor the Underwriter takes any responsibility for the accuracy of such numbers.

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

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

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

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

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

The information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by the City. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend" or similar words. Such forward-looking statements include, but are not limited to, certain statements contained under the caption "PROPERTY TAXATION."

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

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

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

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

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**CITY OF ESCONDIDO  
COUNTY OF SAN DIEGO  
STATE OF CALIFORNIA**

**MAYOR AND MEMBERS OF THE CITY COUNCIL**

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

**STAFF**

Clay Phillips, City Manager  
Jeffrey Epp, Esq., City Attorney  
Sheryl Bennett, Director of Administrative Services  
Kenneth Hugins, City Treasurer  
Ed Domingue, Director of Public Works  
Diane Halverson, City Clerk

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

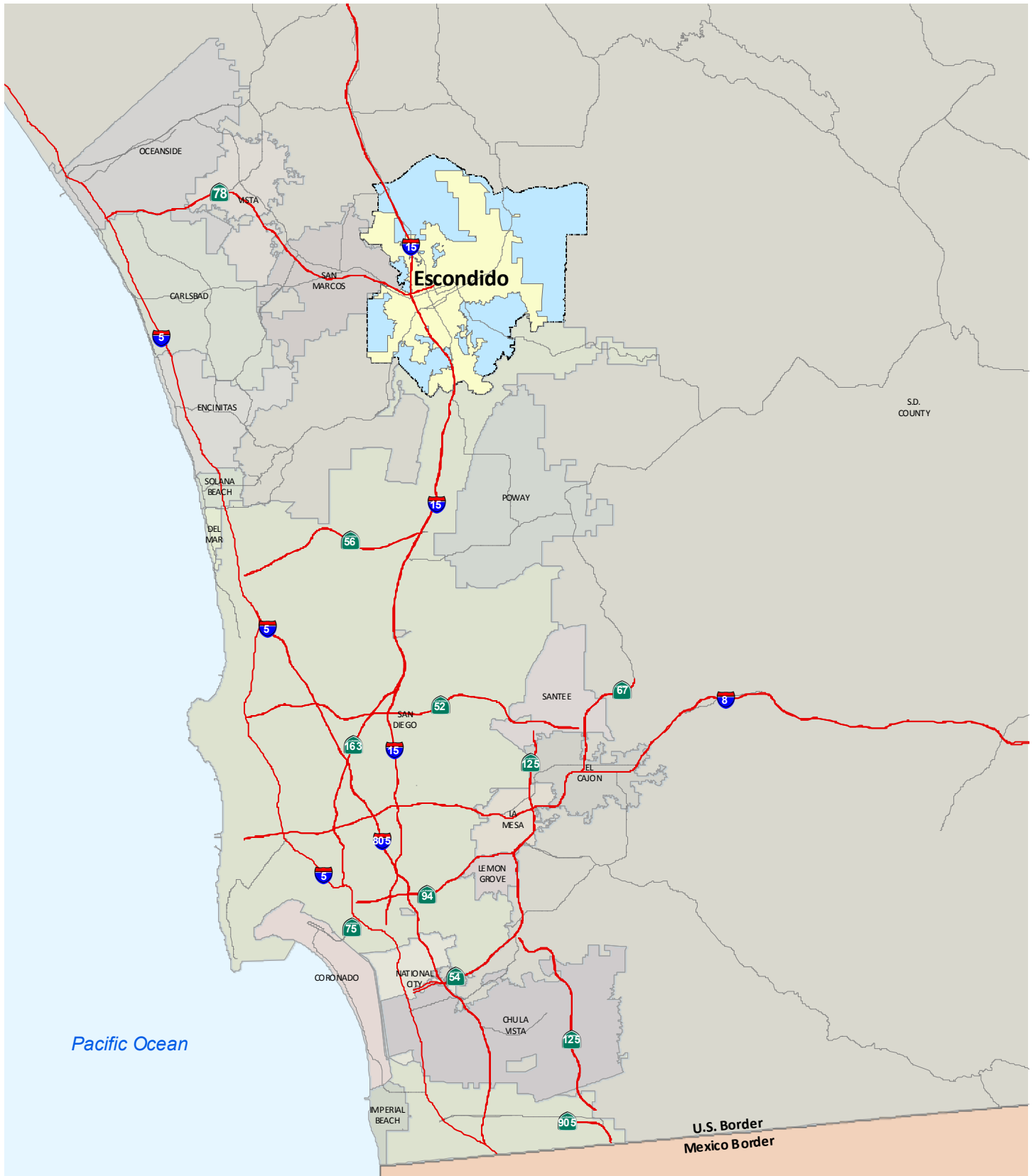
Stradling Yocca Carlson & Rauth, a Professional Corporation  
Newport Beach, California

**Paying Agent/Escrow Agent**

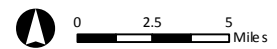
The Bank of New York Mellon Trust Company, N.A.  
San Diego, California

**Verification Agent**

Causey Demgen & Moore P.C.  
Denver, Colorado



- Escondido City Boundary
- Escondido General Plan Area
- Freeways
- Highways



# Escondido General Plan

## Regional Location

Source: SanGIS, City of Escondido

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**\$62,320,000\***  
**CITY OF ESCONDIDO**  
**GENERAL OBLIGATION REFUNDING BONDS**  
**SERIES 2015 (FIRE, POLICE AND EMERGENCY RESPONSE MEASURE)**

*The purpose of this Official Statement, which includes the cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the City of Escondido General Obligation Refunding Bonds Series 2015 (Fire, Police and Emergency Response Measure) (the “Bonds”) by the City of Escondido, California (the “City”). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Resolution (as defined below).*

**INTRODUCTION**

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

The Bonds are being issued to refund the City of Escondido General Obligation Bonds, Election of 2004, Series A (Fire, Police and Emergency Response Measure) (the “Refunded Bonds”), which were issued on August 22, 2006 in the initial aggregate principal amount of \$84,350,000. The Refunded Bonds, which are currently outstanding in the aggregate principal amount of \$72,180,000, were authorized at an election of the registered voters of the City held on November 2, 2004, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$84,350,000 principal amount of general obligation bonds (the “Authorization”) to construct, upgrade and acquire land for City fire stations, including an emergency response training center and a combined police and fire headquarters facility (the “Project”). See the caption “THE REFUNDING PLAN.”

The Government Code authorizes the City to issue general obligation bonds to refund all or a portion of outstanding bonds previously issued by the City if the total net interest cost to maturity on the refunding bonds plus the principal amount of the refunding bonds does not exceed the total net interest cost to maturity of the outstanding bonds to be refunded plus the principal amount of the outstanding bonds to be refunded.

The Bonds are being issued under the provisions of Chapter 4 (commencing with Section 43600) of Division 4 of Title 4 (the “Law”) and Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of the California Government Code and Resolution No. 2015-60 and Supplement to Resolution No. 2015-60, each adopted by the City Council of the City (the “City Council”) on April 22, 2015 (as supplemented, the “Resolution”). The Refunded Bonds were the first and only series of bonds to be sold and issued under the authorization. See the caption “THE BONDS—Authority for Issuance.” The City has appointed The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent”) to act as paying agent for the Bonds.

The Bonds are general obligations of the City payable solely from *ad valorem* property taxes levied and collected by the County of San Diego (the “County”). The City Council is empowered to direct the County and the County is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See the caption “SECURITY FOR THE BONDS.”

The Bonds will be dated their date of original issuance and delivery (the “Dated Date”) and will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 or any integral multiple of

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\* Preliminary; subject to change.

\$5,000, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described below. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See the caption “THE BONDS” and Appendix E.

Interest on the Bonds accrues from the Dated Date and is payable on March 1 and September 1 of each year, commencing March 1, 2016. See the caption “THE BONDS—Description of the Bonds.”

The Bonds are subject to optional redemption prior to maturity as described under the caption “THE BONDS—Redemption.”

The City is located approximately 30 miles northeast of San Diego, California. The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. The City is governed by a five-member City Council. The Mayor is directly elected at large. Since 2014, the City has been divided into four districts, which are used for all regular elections of Council members. The City has an estimated population of 147,294 as of January 1, 2015, to which it provides police, fire, water and wastewater utilities, parks and recreation, public works, planning, engineering and other services. See Appendices A and B for certain demographic, statistical and financial information regarding the City.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The City’s financial statements for the fiscal year of the City (each, a “Fiscal Year”) ended June 30, 2014 included as Appendix B have been audited by Lance, Soll & Lunghard, LLP, Brea, California (the “Auditor”). The City’s financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit review of the financial condition of the City.

Copies of documents referred to in this Official Statement and information concerning the Bonds are available from the City of Escondido City Clerk, 201 North Broadway, Escondido, California 92025. The City may impose a charge for copying, mailing and handling.

## **THE REFUNDING PLAN**

### **General**

The Bonds are being issued to refund the Refunded Bonds. The Refunded Bonds were authorized at an election of the registered voters of the City held on November 2, 2004, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$84,350,000 principal amount of general obligation bonds to finance the Project. The Refunded Bonds were issued on August 22, 2006 in the aggregate principal amount of \$84,350,000 and are currently outstanding in the aggregate principal amount of \$72,180,000. All of the proceeds of the Refunded Bonds have been expended and the Project has been completed.

The Bonds are being issued to provide moneys which, together with moneys held in certain funds and accounts established for the Refunded Bonds, will be sufficient to redeem the outstanding Refunded Bonds on September 1, 2015 (the “Redemption Date”) at a redemption price equal to the principal amount thereof plus accrued interest, without premium.

Pursuant to the Resolution, the City will deliver a portion of the proceeds of the Bonds to the Paying Agent to transfer to The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “Escrow Agent”) for deposit in an escrow fund (the “Escrow Fund”) established under the Escrow Agreement, dated as of June 1, 2015 (the “Escrow Agreement”), by and between the City and the Escrow Agent. Proceeds of the Bonds and other moneys held in the Escrow Fund to redeem the Refunded Bonds are expected to be invested in Federal Securities (as such term is defined in Supplement to Resolution No. 2006-150, dated as of August 1,

2006 pursuant to which the Refunded Bonds were issued) (the “Defeasance Obligations”). The Defeasance Obligations will be scheduled to mature in such amounts and at such times and bear interest at such rates as to provide amounts (together with any cash deposit) sufficient to redeem the Refunded Bonds on the Redemption Date. Amounts in the Escrow Fund will be irrevocably pledged to secure, when due, the payment of the principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds.

**Verification of Mathematical Computations**

Upon delivery of the Bonds, Causey Demgen & Moore P.C., Denver, Colorado, acting as verification agent, will deliver a report verifying the mathematical accuracy of certain computations concerning: (i) the adequacy of the maturing principal of and interest earned on the Defeasance Obligations, together with the cash to be concurrently deposited in the Escrow Fund, to pay all of the principal of and interest on the Refunded Bonds on the Redemption Date and to defease all of the outstanding Refunded Bonds in full on the date of issuance of the Bonds; and (ii) the yield on the Defeasance Obligations and the Bonds considered by Bond Counsel in its determination that interest on the Bonds is excluded from gross income for federal income tax purposes.

**Sources and Uses of Funds**

The estimated sources and uses of funds with respect to the Bonds will be applied as follows:

*Sources of Funds*<sup>(1)</sup>

Principal Amount of Bonds	\$
Plus/Less Net Original Issue Premium/Discount	
City Contribution <sup>(2)</sup>	
Total Sources	\$

*Uses of Funds*<sup>(1)</sup>

Deposit to Escrow Fund	\$
Deposit for Costs of Issuance <sup>(3)</sup>	
Underwriter’s Discount	
Total Uses	\$

<sup>(1)</sup> All amounts rounded to the nearest dollar. Totals may not add due to rounding.  
<sup>(2)</sup> Reflects moneys held in funds and accounts established in connection with the Refunded Bonds.  
<sup>(3)</sup> Includes fees of Bond Counsel and Disclosure Counsel, rating agencies, Trustee, printer and other miscellaneous costs of issuance with respect to the Bonds.

**THE BONDS**

**Authority for Issuance**

The Bonds are being issued under the provisions of Chapter 4 (commencing with Section 43600) of Division 4 of Title 4, and Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of the California Government Code (the “Law” and the “Bond Law,” respectively) and the Resolution.

Pursuant to the provisions of the Law, as amended, and pursuant to Ordinance No. 2004-16 adopted by the City Council of the City on July 21, 2004 (the “Ordinance”), a special election was held on November 2, 2004 in the City at which there was submitted to the voters a proposition to incur indebtedness to finance the Project.

More than two-thirds of the votes cast at the election were in favor of the incurring of such indebtedness. The Refunded Bonds were the only bonds issued pursuant to this voter approval and were issued in the original principal amount of \$84,350,000. Pursuant to the Bond Law, the City Council of the City is now authorized to provide for the form of Bonds and for the issuance of any part thereof to refinance the Refunded Bonds. The Bonds are payable as to principal and interest from *ad valorem* taxes levied exclusively upon the taxable property within the City as permitted by law. See the caption "SECURITY FOR THE BONDS."

### **Description of the Bonds**

***Paying Agent.*** The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as the registrar, transfer agent, and Paying Agent for the Bonds.

***Book-Entry Form.*** The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds (the "Beneficial Owners") will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

As long as DTC's book-entry system is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Bonds called for prepayment or of any other action premised on such notice.

The Paying Agent, the City, and the Underwriter of the Bonds have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

In the event that either: (i) DTC determines not to continue to act as securities depository for the Bonds; or (ii) the City determines to terminate DTC as a securities depository for the Bonds, then the City will discontinue the book-entry system with DTC. If the City fails to identify another securities depository to replace DTC, then the Bonds will no longer be required to be registered in the registration books maintained by the Paying Agent in the name of DTC, but will be registered in whatever name or names the owners transferring or exchanging Bonds shall designate, in accordance with the provisions of the Resolution.

See Appendix E for further information with respect to DTC and the book-entry system.

***Payment of Principal and Interest.*** The Bonds will be dated the Dated Date, will bear interest from the Dated Date, payable on March 1 and September 1 of each year, commencing March 1, 2016 (each, an "Interest Payment Date"), and will mature on September 1 in each of the designated years and in the principal amounts shown on the inside front cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication with respect to which interest has been paid or provided for (unless: (i) the date of authentication is prior to the first Record Date, in which event from the Closing Date; (ii) the date of authentication is after a Record Date and before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (iii) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date) until the principal thereof has been paid.

The Bonds will be in fully registered form, without coupons, in the denominations of \$5,000 or any integral multiple thereof, provided that no Bond will have principal maturing on more than one principal maturity date.

Interest on each Bond will be paid by the Paying Agent by check mailed by first class mail, postage prepaid, on the Interest Payment Date to the Owner as his/her name and address appear on the register kept by the Paying Agent at the close of business on the applicable Record Date. At the request of any owner of at least \$1,000,000 in aggregate principal amount of Bonds, interest on the Bonds will be paid by wire transfer in immediately available funds if such request is made at least 15 days before the Record Date for such payment, any such designation to remain in effect until withdrawn.

***Denominations and Maturity.*** The Bonds will be issued in the denomination of \$5,000 or any integral multiple of \$5,000. The Bonds mature on September 1 in the years and amounts set forth on the inside front cover page of this Official Statement. See the caption “DEBT SERVICE SCHEDULE.”

## **Redemption**

***Optional Redemption.***\* The Bonds maturing on or after September 1, 2025 are subject, at the option of the City, to redemption prior to their stated maturities in whole or in part on any date commencing March 1, 2025, selected among maturities, if in part as nearly as practicable on a pro-rata basis, and by lot within a maturity, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

***Selection of Bonds for Redemption.*** If less than all of the Bonds outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof, and, in selecting portions of such Bond for redemption, the Paying Agent will treat each such Bond as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000. The Paying Agent will promptly notify the City in writing of the Bonds, or portions thereof, selected for redemption.

***Notice of Redemption.*** The Paying Agent will provide written notice to Bond Owners of all Bonds to be redeemed by first class mail within 60 days, but in no event later than 30 days prior to the date of such redemption. The notice of redemption will: (a) state the redemption date; (b) state the redemption price; (c) state the dates of maturity of the Bonds and, if less than all of any such maturity is called for redemption the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of Bonds redeemed in part only, the respective portions of the principal amount thereof, to be redeemed; (d) state the CUSIP number, if any, of each Bond to be redeemed; (e) give notice that further interest on such Bonds will not accrue after the designated redemption date; and (f) any other descriptive information regarding the Bonds needed to identify accurately the Bonds being redeemed. The actual receipt by the Owner of notice of such redemption is not a condition precedent to redemption, and failure to receive such notice will not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

At least 25 days before the redemption date, notice will also be given by: (i) registered or certified mail, postage prepaid; (ii) confirmed facsimile transmission; or (iii) overnight delivery service, to DTC and in accordance with then current guidelines of the Securities and Exchange Commission, to any other firm or service regularly providing information with respect to the redemption of Bonds designated to the Paying Agent by the City.

With respect to the optional redemption of Bonds, at the direction of the City filed with the Paying Agent, the notice of such redemption will state that such redemption is conditioned upon the receipt by the Paying Agent on or before the date fixed for such redemption of sufficient funds for such purpose from any

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\* Preliminary; subject to change.

issue of refunding bonds. In the event that sufficient funds have not been deposited with the Paying Agent on or before the date fixed for redemption, the Paying Agent will promptly notify the Owners of the Bonds by telephone, facsimile transmission or other form of telecommunication, promptly confirmed in writing; and thereupon such redemption and the notice thereof will be deemed to be canceled and rescinded.

***Effect of Redemption.*** When notice of redemption has been given, substantially as provided for in the Resolution, and when the amount necessary for the redemption of the Bonds called for redemption (principal and premium, if any) is set aside for that purpose in the Debt Service Fund, as provided for in the Resolution, the Bonds designated for redemption will become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at said redemption price out of the Debt Service Fund, and no interest will accrue on such Bonds called for redemption after the redemption date specified in such notice and the owners of the Bonds so called for redemption after such redemption date will look only to the funds held for such purpose in the Debt Service Fund (or held for such specific purpose in the Bond Fund held by the Paying Agent). All Bonds redeemed will be cancelled forthwith by the Paying Agent and will not be reissued. The City will establish a separate account in the Debt Service Fund to hold funds available for payment of called Bonds after the redemption date.

### **Registration, Transfer and Exchange of Bonds**

The Paying Agent shall keep or cause to be kept sufficient books for the registration and transfer of the Bonds (the "Bond Register"), which will at all times be open to inspection by the City upon reasonable notice; and, upon presentation for such purpose, the Paying Agent will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the Bonds.

*In the event that the book-entry system as described above is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.*

Any Bond may, in accordance with its terms, be transferred, upon the registration books required to be kept by the Paying Agent, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such fully registered Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

Whenever any Bond or Bonds are surrendered for transfer, the Paying Agent will authenticate and deliver a new Bond or Bonds of the same series and maturity, for the like aggregate principal amount of Bond or Bonds surrendered.

Bonds may be exchanged at the principal corporate trust office of the Paying Agent in Los Angeles, California, for a like aggregate principal amount of Bonds of other authorized denominations of the same series and maturity.

The person, firm or corporation requesting the transfer or exchange will pay any costs or charges in connection with the transfer or exchange as are established by the Paying Agent, in addition to paying any tax or governmental charge that may be imposed in connection with the transfer or exchange. The Paying Agent is not required, however, to register a transfer or make an exchange of any Bond: (i) during the 15 days before the selection of Bonds for redemption; or (ii) if such Bond has been called for redemption in whole or in part.

### **Debt Service**

Pursuant to the Resolution, the Director of Administrative Services will transfer available monies from the Debt Service Fund to the Paying Agent in amounts sufficient and at such time as are necessary to promptly pay principal and interest on the Bonds as such become due.

## **Creation and Establishment of Funds**

**Debt Service Fund.** All moneys derived from such taxes and all other moneys allocated and designated for payment of said Bonds and the interest thereon (including amounts levied in Fiscal Year 2015 for the Prior Bonds) will be placed in a fund of the City and designated “City of Escondido Series 2015 General Obligation Refunding Bonds (Fire, Police and Emergency Response Measure) Debt Service Fund” (the “Debt Service Fund”). The Debt Service Fund and accounts therein (to the extent created pursuant to the Resolution) will be kept separate and apart from all other funds of the City (and have been irrevocably pledged for the payment of the Bonds in accordance with the purpose and intent of the Resolution), and until all of said Bonds and all interest thereon have been fully paid (or defeased) the moneys in the Debt Service Fund will be used for no other purpose than the payment of the Bonds and the interest thereon; provided, however, that when all of the principal and interest on all of the Bonds have been paid, any balance of money then remaining in said funds will be transferred to the General Fund of the City. Interest earned on the investment of monies in the Debt Service Fund will be retained in the Debt Service Fund and used by the City to pay principal and interest on the Bonds when due.

**Bond Fund.** The Director of Administrative Services will transfer available monies from the Debt Service Fund to the Paying Agent in amounts sufficient and at such time as are necessary to promptly pay principal (including mandatory sinking fund payments, if any), interest and redemption premium, if any, on the Bonds as such become due; and the Paying Agent will establish a fund designated the “City of Escondido Series 2015 General Obligation Refunding Bonds (Fire, Police and Emergency Response Measure) Bond Fund” (the “Bond Fund”) for such purpose and will make payments to the Bond Owners of principal (including mandatory sinking fund payments, if any), interest and redemption premium, if any, on the Bonds as such become due; provided that, in the event of any deficiencies, moneys on deposit in the Bond Fund will be applied first to the payment of interest and then to the payment of principal and, in all such cases, ratably and without preference among all maturities.

**Rebate Fund.** The City will calculate rebatable arbitrage for the Bonds and pay required amounts to the United States Government pursuant to the Internal Revenue Code of 1986, as amended (the “Code”) from monies held in a fund established by the City and designated the Series 2015 General Obligation Refunding Bonds (Fire, Police and Emergency Response Measure) Rebate Fund (the “Rebate Fund”). All monies at any time deposited in the Rebate Fund will be held by the City in trust for payment to the United States Treasury.

**Investment of Funds.** Monies in the Debt Service Fund and the Bond Fund will be invested only in Authorized Investments (as such term is defined below) which will by their terms mature, or in the case of an investment agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due. The Paying Agent is under no obligation to invest moneys in the Bond Fund except on the written instruction of the Director of Administrative Services. Investment earnings, if any, in the Bond Fund in excess of amounts held for the benefit of Owners will be returned to the City for deposit in the Debt Service Fund.

Pursuant to the Resolution, the term “Authorized Investments” means any investment permitted by law to be made with any moneys belonging to or in the custody of the City and by any policy guidelines promulgated by the City; including:

1. Generally approved qualifying investment instruments:
  - a. Obligations of the U.S. Government, its agencies, and instrumentalities.
  - b. Certificates of deposit with banks and savings and loans doing business in the State of California.
  - c. Prime Banker’s Acceptances.

- d. Prime Commercial Paper.
  - e. Repurchase Agreements and Money Market Funds whose underlying collateral consists of the foregoing.
  - f. San Diego County's Investment Pool for local agencies, which includes the purchase of Reverse Repurchase Agreements.
  - g. Pools and other investment structures incorporating investments listed in a. through e. above.
2. Generally approved qualifying investment instruments for City funds, as further limited by the investment policy:
- a. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest.
  - b. Obligations issued by the United States Government Agencies such as the Government National Mortgage Association (GNMA), Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), Fannie Mae, and the Student Loan Marketing Association (SLMA).
  - c. Bills of exchange or time drafts drawn on and accepted by a commercial bank otherwise known as banker's acceptances. Purchases of banker's acceptances may not exceed 180 days to maturity.
  - d. Commercial paper ranked P1 by Moody's Investor Service, Inc. ("Moody's") and A1 by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and issued by a domestic corporation having assets in excess of \$500 million and having an A or better rating on its long-term debentures as provided by Moody's and S&P.
  - e. The City may invest in the Local Agency Investment Fund established by the State Treasurer for the benefit of local agencies up to the maximum amount permitted by State law.
  - f. Money market funds rated in the highest category of Moody's or S&P, or administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's or S&P.

Pursuant to the City's Investment Policy, the concentration, maturity and type of investments is restricted. The investments are directed by the City Treasurer or other City officials to whom such function is delegated, in accordance with the procedures set forth in the Investment Policy. The City's Investment Policy is subject to change by the City from time to time. See Appendix A under the caption "City Investment Policy."

### **Tax Covenants**

In order to preserve the exclusion from gross income for federal income tax purposes of interest due with respect to the Bonds, the City has covenanted to take no action or refrain from taking any action which, in the opinion of Bond Counsel, would result in the interest received by the Bond Owners being includable in gross income for federal income tax purposes, and to comply with all applicable requirements of the Code, together with any amendments thereto or regulations promulgated thereunder which are necessary to preserve such exclusion from gross income. See the caption "LEGAL MATTERS—Tax Matters."



## **Amendment to Resolution**

***Amendment with Bond Owner Consent.*** The Resolution, and the rights and obligations of the City and of the Owners of the Bonds, may be modified or amended at any time by a supplemental resolution adopted by the City with the written consent of Owners owning at least 60% in aggregate principal amount of the outstanding Bonds, exclusive of Bonds, if any, owned by the City; provided, however, that no such modification or amendment may, without the express consent of the Owner of each Bond affected, reduce the principal amount of any Bond, reduce the interest rate payable thereon, advance the earliest redemption date thereof, extend its maturity or the times for paying interest thereon or change the monetary medium in which principal and interest is payable, nor will any modification or amendment reduce the percentage of consents required for amendment or modification. No such supplemental resolution may change or modify any of the rights or obligations of any Paying Agent without its written assent thereto. Notwithstanding anything in the Resolution to the contrary, no such consent is required if the Owners are not directly and adversely affected by such amendment or modification.

***Amendment without Bond Owner Consent.*** The Resolution, and the rights and obligations of the City and of the Owners of the Bonds, may be modified or amended at any time by a supplemental resolution adopted by the City without the written consent of the Owners:

(i) to add to the covenants and agreements of the City in the Resolution, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(ii) to add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(iii) to confirm as further assurance any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of any moneys, securities or funds, or to establish any additional funds or accounts to be held under the Resolution;

(iv) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

(v) to amend or supplement the Resolution in any other respect, provided that such supplemental resolution does not adversely affect the interests of the Owners.

## **Defeasance**

The Bonds may be defeased in whole or in part prior to maturity by irrevocably depositing with the City in a separate account of the Debt Service Fund to be held separate and apart from all other funds of the City, and which is irrevocably pledged to the Bonds so defeased (or an entity designated by the Director of Administrative Services to act as escrow agent with respect thereto):

(a) An amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient, without reinvestment, to pay and discharge all or part of the Bonds outstanding (including all principal, interest and premium, if any) at or before their stated maturity date; or

(b) Federal Securities (as such term is defined below) not subject to call, together with cash, if required, in such amount as will, without reinvestment, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to accrue thereon, be fully sufficient to pay and discharge all of the corresponding Bonds (including all principal and interest and premium, if any) to be defeased at or before their stated maturity date.

In such event, notwithstanding that any of the Bonds have not been surrendered for payment, all obligations of the City with respect to all said outstanding Bonds will cease and terminate, except only the obligation of the City to pay or cause to be paid from funds deposited pursuant to paragraphs (a) or (b) above, to the owners of said Bonds not so surrendered and paid all sums due with respect thereto; provided that the City has received an opinion of Bond Counsel that the Bonds have been defeased.

The term "Federal Securities" means direct or indirect noncallable obligations of, or noncallable, nonrepayable obligations unconditionally guaranteed as to full and timely payment of principal and interest by, the United States of America, but excluding investments in mutual funds or unit investment trusts.

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## DEBT SERVICE SCHEDULE

The following table shows the semi-annual debt service schedule with respect to the Bonds.

<i>Period Ending</i>	<i>Principal Payment</i>	<i>Interest Payment</i>	<i>Total Debt Service</i>
03/01/2016	\$	\$	\$
09/01/2016			
03/01/2017			
09/01/2017			
09/01/2017			
03/01/2018			
09/01/2018			
03/01/2019			
09/01/2019			
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09/01/2030			
03/01/2031			
09/01/2031			
03/01/2032			
09/01/2032			
03/01/2033			
09/01/2033			
03/01/2034			
09/01/2034			
03/01/2035			
09/01/2035			
03/01/2036			
09/01/2036			
Totals	\$ _____	\$ _____	\$ _____

Source: Stifel, Nicolaus & Company, Incorporated.

## SECURITY FOR THE BONDS

### *Ad Valorem Taxes*

***Bonds Payable from Ad Valorem Property Taxes.*** The Bonds are general obligations of the City, payable solely from *ad valorem* property taxes levied and collected pursuant to the Authorization. The City

has the power, is obligated and has covenanted to direct the County to levy *ad valorem* taxes upon all property within the City subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates) for the payment of the Bonds and the interest thereon. All such taxes for the payment of principal and interest on such Bonds will be established, levied and collected as provided in the provisions of the Law.

**Levy and Collection.** Each year, the City Council, so far as is practicable, will fix such rate or rates for a tax to be levied in the City as will result in revenues which will pay the interest on the Bonds, and provide a sinking or other fund for the payment of the principal of the Bonds as such principal may become due. The City Council will determine the Fiscal Year for all of such amounts, and will fix the rate or rate of tax to be levied which will raise the amounts of money required by the City for such purposes, and as required by the provisions of the Law, the City Council will certify to the County Auditor-Controller of the County of San Diego (the "County Auditor") the rate or rates so fixed and will furnish to the County Auditor a statement in writing containing the following: (a) an estimate of the minimum amount of money required to be raised by taxation during the Fiscal Year for the payment of the principal of and interest on the Bonds, as will become due before the proceeds of a tax levied at the next general tax levy will be available; (b) an estimate of the minimum amount of money required to be raised by taxation during the Fiscal Year for all other purposes of the City; and (c) any other items required by the provisions of the Law. The County Auditor will compute and enter in the County assessment roll the respective sums to be paid as a City tax on the property within the City using the rate or rates of levy as fixed by the City Council and the assessed value as found on the assessment roll for the property subject to the tax.

It is the duty of all County officers charged with the duty of collecting taxes to collect such tax in time, form and manner as County taxes are collected and when collected to pay the same to the City.

All such taxes for the payment of principal and interest on the Bonds will be established, levied and collected as provided in the provisions of the Law.

Information regarding assessed valuation of taxable property in the City is set forth below under the caption "PROPERTY TAXATION."

The City will levy and the County will collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the Bonds. Such taxes, when collected, will be deposited into the Debt Service Fund.

City property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

**Annual Tax Rates.** The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the City will cause the annual tax rate to fluctuate.

Economic and other factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate.

## **Limited Obligation**

The Bonds are payable solely from the proceeds of an *ad valorem* tax levied by the City, and collected by the County, for the payment of principal and interest on the Bonds. Although the County is obligated to levy and collect the *ad valorem* tax for the payment of the Bonds, the Bonds are not a debt of the County.

## **PROPERTY TAXATION**

### **Property Tax Collection Procedures**

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing state assessed public utilities’ property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1½% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1½% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder’s office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

### **Taxation of State-Assessed Utility Property**

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization (“SBE”) and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as “unitary property,” a concept designed

to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and “operating nonunitary” property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

**Assessed Valuation**

*Assessed Valuation History.* The table below the assessed valuation within the City for the current and nine prior Fiscal Years.

**TABLE 1**  
**CITY OF ESCONDIDO**  
**Assessed Valuations of Taxable Property**  
**Fiscal Years 2006 to 2015**

<i>Fiscal Year</i>	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>	<i>Percent Change</i>
2006	\$ 9,996,437,640	\$199,984,866	\$390,957,917	\$10,587,380,423	N/A%
2007	11,183,150,133	362,604,581	412,712,218	11,958,466,932	12.95
2008	12,279,732,533	193,617,707	458,290,613	12,931,640,853	8.14
2009	12,396,660,668	191,221,485	449,223,142	13,037,105,295	0.82
2010	11,395,386,920	200,996,794	475,717,296	12,072,101,010	(7.40)
2011	11,230,384,520	206,857,586	450,327,466	11,887,569,572	(1.53)
2012	11,321,440,297	228,696,526	443,202,400	11,993,339,223	0.89
2013	11,327,089,140	249,926,044	452,613,302	12,029,628,486	0.30
2014	11,638,786,788	210,547,681	457,413,448	12,306,747,917	2.30
2015	12,234,877,696	211,076,916	486,135,220	12,932,089,832	5.08

Source: California Municipal Statistics, Inc.

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*Assessed Valuation by Land Use.* The following table shows the land use of parcels in the City, according to net assessed valuation. As shown, the majority of land in the City is used for residential purposes.

**TABLE 2**  
**CITY OF ESCONDIDO**  
**Assessed Valuation by Land Use**  
**Fiscal Year 2015**

	<i>Fiscal Year 2015 Assessed Valuation</i> <sup>(1)</sup>	<i>% of Total</i>	<i>No. of Parcels</i>	<i>% of Total</i>
<b>Non-Residential:</b>				
Agricultural/Rural	\$ 32,497,576	0.27%	134	0.39%
Commercial	1,929,170,409	15.77	1,178	3.44
Vacant Commercial	70,755,944	0.58	202	0.59
Industrial	772,867,464	6.32	716	2.09
Vacant Industrial	39,340,126	0.32	114	0.33
Recreational	36,635,017	0.30	18	0.05
Government/Social/Institutional	9,210,819	0.08	51	0.15
Miscellaneous	<u>1,365,380</u>	<u>0.01</u>	<u>22</u>	<u>0.06</u>
Subtotal Non-Residential	\$ 2,891,842,735	23.64%	2,435	7.11%
<b>Residential:</b>				
Single Family Residence	\$ 7,161,907,183	58.54%	23,852	69.68%
Condominium/Townhouse	619,583,730	5.06	3,811	11.13
Mobile Home	213,264,803	1.74	2,398	7.01
Mobile Home Park	58,672,302	0.48	36	0.11
2-4 Residential Units	261,560,289	2.14	955	2.79
5+ Residential Units/Apartment	982,944,001	8.03	293	0.86
Miscellaneous Residential	5,825,863	0.05	54	0.16
Vacant Residential	<u>39,276,790</u>	<u>0.32</u>	<u>398</u>	<u>1.16</u>
Subtotal Residential	\$ 9,343,034,961	76.36%	31,797	92.89%
<b>Total</b>	<u>\$12,234,877,696</u>	<u>100.00%</u>	<u>34,232</u>	<u>100.00%</u>

<sup>(1)</sup> Local secured assessed valuation; excludes tax-exempt and utility property.  
Source: California Municipal Statistics, Inc.

### **Tax Rates**

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in tax rate areas 4-13, 4-25 and 4-225 for each \$100 of assessed valuation during Fiscal Years 2011 through 2015. Such rates reflect the levy associated with the Refunded Bonds. Tax rate areas 4-13, 4-25 and 4-225 are the three largest tax rate areas in the City by assessed valuation, with Fiscal Year 2015 assessed valuations of \$1,798,333,781, \$1,562,295,115 and \$933,660,578, respectively. Tax rates in other tax rate areas in the City may vary slightly.

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**TABLE 3**  
**CITY OF ESCONDIDO**  
**Summary of Ad Valorem Tax Rates**  
**(Tax Rate Areas 4-13, 4-25 and 4-225)**

<i>Ad Valorem Tax</i>	<i>Fiscal Year Ended June 30</i>				
	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
City General Fund	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Palomar Pomerado Healthcare District	0.02350	0.02350	0.02350	0.02350	0.02350
Escondido Union School District	0.03343	0.03351	0.03367	0.02762	0.02167
Escondido Union High School District	0.02299	0.02494	0.02724	0.02789	0.02979
Palomar Community College District	0.01472	0.01384	0.01365	0.01260	0.01288
City of Escondido	0.04074	0.04067	0.03923	0.03720	0.03591
The Metropolitan Water District of Southern California	<u>0.00370</u>	<u>0.00370</u>	<u>0.00350</u>	<u>0.00350</u>	<u>0.00350</u>
Total Tax Rate	<u>1.13908%</u>	<u>1.14016%</u>	<u>1.14079%</u>	<u>1.13231%</u>	<u>1.12725%</u>

Source: California Municipal Statistics, Inc.

**Secured Tax Charges and Delinquencies**

The following table is a five-year summary of property tax levies attributable to the City, including taxes levied to pay debt service on outstanding City general obligation debt (including the Refunded Bonds but excluding the Bonds) and delinquency amounts attributable to the City. Delinquency data reflects the City’s proportionate share of County-wide outstanding delinquencies as such delinquencies are apportioned to the City by the County under state law. Statistics specific to the City are not available from the County. Certain counties within the State have adopted an “Alternative Method of Distribution of Tax Levies and Collections and Tax Sale Proceeds” authorized under the State Revenue and Taxation Code (the “Teeter Plan”). Under the Teeter Plan local taxing agencies receive 100% of the tax levy for each fiscal year, rather than on the basis of actual collections. The City has elected not to participate in the Teeter Plan with respect to taxes levied for the Bonds or otherwise and the City thus absorbs current delinquencies and receives the payment of past delinquencies, penalties, and interest.

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**TABLE 4**  
**CITY OF ESCONDIDO**  
**Secured Tax Charges and Delinquencies**  
**Fiscal Years 2010 through 2014**

<i>Fiscal Year</i>	<i>Secured Tax Charge (General Fund Apportionment)</i>	<i>Amount Delinquent as of June 30</i>	<i>Percent Delinquent as of June 30</i>
2010	\$9,113,910.48	\$292,751.92	3.21%
2011	8,970,262.72	181,746.06	2.03
2012	9,115,793.03	147,553.86	1.62
2013	9,231,022.05	111,409.61	1.21
2014	9,397,396.34	91,711.24	0.98

<i>Fiscal Year</i>	<i>Secured Tax Charge (General Obligation Bond Debt Service Levy Apportionment)</i>	<i>Amount Delinquent as of June 30</i>	<i>Percent Delinquent as of June 30</i>
2010	\$4,637,152.63	\$111,177.75	2.40%
2011	4,540,711.24	74,026.20	1.63
2012	4,592,702.72	63,275.27	1.38
2013	4,470,764.91	41,847.55	0.94
2014	4,345,615.22	41,847.08	0.96

Source: California Municipal Statistics, Inc.

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## Major Taxpayers

The following table shows the largest taxpayers in the City as determined by their local secured assessed valuations in Fiscal Year 2015:

**TABLE 5**  
**CITY OF ESCONDIDO**  
**Largest Fiscal Year 2015 Local Secured Taxpayers**  
**(Based on Taxes Levied)<sup>(1)</sup>**

<i>Property Taxpayer</i>	<i>Land Use</i>	<i>Assessed Valuation</i>	<i>% of Total<sup>(1)</sup></i>
1. North County Fair LLC	Shopping Center	\$ 181,552,359	1.48%
2. Conrad Prebys Trust	Apartments	87,925,780	0.72
3. FRIT Escondido Promenade LLC	Shopping Center	45,245,593	0.37
4. North County Fair LP	Shopping Center	41,991,954	0.34
5. Luna Properties LLC	Auto Sales/Service	41,512,392	0.34
6. Vons Companies Inc.	Grocery Stores	39,075,998	0.32
7. OC/SD Holdings LLC	Apartments	34,835,123	0.28
8. Garrick Motors Inc.	Auto Sales/Service	32,990,791	0.27
9. Felicita Garp LLC	Shopping Center	31,516,781	0.26
10. Ross Apartment Company	Apartments	30,619,835	0.25
11. Goal Line LP	Recreation (Ice Rink)	28,271,314	0.23
12. MG Morningview Apartments LP	Apartments	27,422,135	0.22
13. Aimco Sunset Escondido LLC	Apartments	26,954,340	0.22
14. Williams Portfolio 6	Apartments	26,262,572	0.21
15. Emil Rose Partners II LP	Commercial	26,055,890	0.21
16. PK I Del Norte Plaza LP	Shopping Center	25,103,452	0.21
17. Escondido Paramount LLC	Apartments	24,292,899	0.20
18. Escondido MVMB LLC	Apartments	24,055,088	0.20
19. Lowes HIW Inc.	Commercial	23,908,015	0.20
20. Avanath Escondido LP	Apartments	23,506,236	0.19
Total		<u>\$ 823,098,547</u>	6.73%

<sup>(1)</sup> The Fiscal Year 2015 local secured assessed valuation is \$12,234,877,696.  
Source: California Municipal Statistics, Inc.

## Direct and Overlapping Debt

The ability of an owner of land within the City to pay *ad valorem* taxes could be affected by the existence of other taxes and assessments imposed upon the property. Contained within the City are overlapping local agencies providing public services which have issued general obligation bonds and other types of indebtedness.

Set forth below is a direct and overlapping governmental activities debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective as of March 1, 2015. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

public agencies whose boundaries overlap those of the City may have existing authorized but unissued debt and could, without the consent of the City, and in certain cases without the consent of the owners of the land within the City, impose additional taxes or assessment liens on the property within the City in order to finance public improvements to be located inside of or outside of such area.

**TABLE 6**  
**City of Escondido**  
**Statement of Overlapping Debt**  
**As of March 1, 2015**

2014-15 Local Secured Assessed Valuation: \$12,932,089,832

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt (3/1/15)</u>
The Metropolitan Water District of Southern California	0.555%	\$ 612,831
Palomar Community College District	12.985	39,019,133
San Marcos Unified School District	3.560	9,980,415
San Marcos Unified School District School Facilities Improvement District No. 1	2.195	95,110
San Marcos Unified School District Community Facilities District No. 1	100.000	325,000
Escondido Union High School District	77.821	74,729,569
Escondido Union School District	78.563	30,195,392
San Pasqual Union School District	56.922	227,657
<b>City of Escondido General Obligation Bonds, Election of 2004, Series A</b>	<b>100.000</b>	<b>72,180,000<sup>(1)</sup></b>
Palomar Pomerado Hospital District	18.968	89,423,006
Community Facilities District No. 2006-01 of the City of Escondido (Eureka Ranch)	100.000	15,810,000 <sup>(2)</sup>
City of Escondido Community Facilities District No. 2000-01 (Hidden Trails)	100.000	2,260,000
City of Escondido 1915 Act Bonds	100.000	<u>4,045,000</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$338,903,113</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Diego County General Fund Obligations	3.086%	\$ 10,852,536
San Diego County Pension Obligation Bonds	3.086	21,065,504
San Diego County Superintendent of Schools Obligations	3.086	454,645
Palomar Community College District Certificates of Participation	12.985	575,885
San Marcos Unified School District General Fund Obligations	3.560	1,946,904
Escondido Union High School District Certificates of Participation	77.821	46,155,635
Escondido Union School District Certificates of Participation	78.563	15,472,983
<b>City of Escondido General Fund Lease Revenue Bonds</b>	<b>100.000</b>	<b><u>4,415,000</u></b>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$100,939,092</b>
<u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Escondido Redevelopment Agency Successor Agency	100.000%	<u>\$ 26,285,000</u>
<b>TOTAL OVERLAPPING TAX INCREMENT DEBT</b>		<b>\$ 26,285,000</b>
<b>COMBINED TOTAL DEBT</b>		<b>\$466,127,205<sup>(3)</sup></b>

Ratios to 2014-15 Assessed Valuation:

<b>Direct Debt (\$72,180,000)</b> .....	<b>0.56%</b>
Total Overlapping Tax and Assessment Debt .....	2.62%
Total Direct Debt (\$76,595,000) .....	0.59%
Combined Total Debt .....	3.60%

Ratios to Redevelopment Incremental Valuation (\$2,542,597,200):

Total Overlapping Tax Increment Debt .....	1.03%
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(FOOTNOTES ON FOLLOWING PAGE)

- (1) Reflects the Refunded Bonds.
  - (2) These obligations are expected to be refunded from proceeds of the Community Facilities District No. 2006-01 of the City of Escondido Special Tax Refunding Bonds, Series 2015, which are expected to be issued on or about June 3, 2015 in the aggregate principal amount of \$13,745,000.
  - (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
- Source: California Municipal Statistics, Inc.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS**

Principal of and interest on the Bonds are payable from the proceeds of an *ad valorem* tax levied by the City for the payment thereof. See the caption "SECURITY FOR THE BONDS." Articles XIII A, XIII B, XIII C and XIII D of the State Constitution, Propositions 62, 111, 218, 1A and 22, and certain other provisions of law discussed below are included in this Official Statement to describe the potential effect of these Constitutional and statutory measures on the ability of the City to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the City to levy taxes for payment of the Bonds. The tax levied by the City for payment of the Bonds was approved by the City's voters in compliance with Article XIII A, the Law and all other applicable laws.

### **Article XIII A of the State Constitution**

On June 6, 1978, State voters approved Proposition 13, which added Article XIII A to the State Constitution. Article XIII A, as amended, limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service: (i) on indebtedness approved by the voters prior to December 1, 1978; (ii) on bonded indebtedness approved by a two-thirds vote on or after December 1, 1978, for the acquisition or improvement of real property; or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters voting on the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, including a general economic downturn, 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 minor or technical ways.

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by counties and distributed according to a formula among taxing agencies.

Increases in assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full cash value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

### **Article XIII B of the State Constitution**

In addition to the limits that Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues that such entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues and the investment proceeds thereof, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized as of October 1, 1979, or subsequently authorized by the voters (such as the Bonds), appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each local government’s actual appropriations be tested against its limit every two years.

If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years.

The City’s appropriations have never exceeded the limitation on appropriations under Article XIII B.

### **Articles XIII C and XIII D of the State Constitution**

On November 5, 1996, State voters approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIII C and XIII D to the State Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments and property-related fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

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

Article XIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs, such as hearings and stricter and more individualized benefit requirements and findings. These provisions include, among other things: (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel; (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIID, over and above any general benefits conferred; (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party; and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would have to be curtailed and/or the City’s General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Proposition 218 or, if these services and programs are continued, which amounts (if any) would be used from the City’s General Fund to continue to support such activities.

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

## **Proposition 62**

Proposition 62 was adopted by the voters at the November 4, 1986, general election and: (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax; (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax; (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed; (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A; (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities; and (f) requires that any tax imposed by a local governmental entity on or after July 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995 in *Fresno County Transportation Authority v. Gardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Court’s decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The City has not experienced any substantive adverse financial impact as a result of the passage of Proposition 62.

## **Proposition 1A**

Proposition 1A, proposed by the State Legislature in connection with the State's fiscal year 2004-05 budget, approved by the voters in November 2004 and generally effective in State fiscal year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in State fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State also will not be able to borrow from local property tax revenues for more than two fiscal years within a period of ten fiscal years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the State-wide local sales tax. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the motor vehicle license fee rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

The fiscal year 2009-10 State budget included a Proposition 1A diversion of \$1.935 billion in local property tax revenues from cities, counties, and special districts to the State to offset State general fund spending. Such diverted revenues had to be repaid, with interest, no later than June 30, 2013. The amount of the Proposition 1A diversion from the City was \$2,314,710. The City participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and, as a result, received the shifted funds in the amount of \$2,314,710, without interest, in two installments in 2010 from the California Statewide Communities Development Authority.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the City.

## **Proposition 22**

Proposition 22, entitled "The Local Taxpayer, Public Safety and Transportation Protection Act," was approved by the voters of the State on November 2, 2010. Proposition 22 eliminates or reduces the State's authority: (i) to temporarily shift property taxes from cities, counties and special districts to schools; (ii) to use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments); (iii) to redirect property tax increment from redevelopment agencies to any other local government; (iv) to use State fuel tax revenues to pay debt service on State transportation bonds; or (v) to borrow or change the distribution of State fuel tax revenues. In the California Supreme Court case affirming the dissolution of redevelopment agencies discussed in Appendix A, the Court determined that Proposition 22 did not prevent the State Legislature from terminating redevelopment agencies. See Appendix A under the caption "State Budget Issues."

## **Proposition 26**

On November 2, 2010, State voters also approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (b) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (c) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (d) a charge imposed for entrance to or use of local government property, or the purchase, rental or lease of local government property; (e) a fine, penalty or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (f) a charge imposed as a condition of property development; and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The City does not believe that Proposition 26 will adversely affect its General Fund revenues.

## **Possible Future Initiatives**

Articles XIII A, XIII B, XIII C and XIII D and Propositions 218, 111, 62, 1A 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

## **LEGAL MATTERS**

### **Approval of Legal Proceedings**

The legality of the sale, execution and delivery of the Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Bond Counsel. A proposed form of such legal opinion is attached hereto as Appendix C. Stradling Yocca Carlson & Rauth, Newport Beach, California, is acting as Disclosure Counsel to the City in connection with the issuance of the Bonds. Certain matters will be passed upon for the City by Jeffrey Epp, Esquire, City Attorney, for the Underwriter by Best Best & Krieger LLP, San Diego, California, and for the Trustee by its counsel.

### **Absence of Material Litigation**

To the best knowledge of the City, there is no action, suit or proceeding pending or threatened either restraining or enjoining the issuance or repayment of the Bonds or the adoption of the Resolution, contesting the City’s ability to receive *ad valorem* taxes or in any way contesting or affecting the validity of the foregoing or any proceedings of the City taken with respect to any of the foregoing. There are a number of lawsuits and claims from time to time pending against the City. In the opinion of the City Attorney, and taking into account likely insurance coverage and litigation reserves, there are no lawsuits or claims pending against the City which will materially affect the City’s finances so as to impair its ability to pay principal of and interest on the Bonds when due.



## **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the Bond before receipt of cash attributable to such excludable income (with respect to the Bonds). The amount of original issue discount deemed received by the owner of a Bond will increase the owner's basis in the Bond. In the opinion of Bond Counsel original issue discount that accrues to the owner of a Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State 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 Bonds is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Code that must be satisfied subsequent to issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable 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 Bond Owner's basis in the applicable 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 Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the 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's engagement with respect to the Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolution and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be

selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar securities). 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 Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE 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 BONDS.

Although Bond Counsel has rendered an opinion that the interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 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 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Bonds.

Should the interest (and original issue discount) on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Resolution.

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

#### **CONTINUING DISCLOSURE**

The City will covenant for the benefit of owners of the Bonds to provide certain annual financial information and operating data relating to the Bonds and the City by not later than March 1 after the end of the City's Fiscal Year (currently the City's Fiscal Year ends on June 30), commencing with the report for the Fiscal Year ending June 30, 2015 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City 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 notice of material events is set forth in Appendix D. These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission.

The continuing disclosure undertaking (the "Undertaking") for the City of Escondido Reassessment District No. 98-1 (Rancho San Pasqual) Limited Obligation Refunding Bonds (the "1998 Bonds") requires the filing of audited financial statements of the City each year. The Undertaking also requires the filing of unaudited financial statements if audited financial statements are not available, but only in a format similar to

financial statements contained in the official statement for the 1998 Bonds. The City filed its audited financial statements after the date required by the Undertaking for each of the last five years. The annual reports for the 1998 Bonds, which were timely filed, noted that the audited financial statements would be filed when available. Such annual reports further noted that unaudited financial statements were not being filed because the Undertaking only requires the filing of unaudited financial statements in a format similar to the financial statements contained in the official statement for the 1998 Bonds, while the City's financial statements were not included in the official statement for the 1998 Bonds.

Except as disclosed in the prior paragraph, the City has not in the past five years failed to comply with any previous continuing disclosure undertaking in any material respect.

### **RATING**

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

### **UNDERWRITING**

The Bonds will be purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter") pursuant to a Bond Purchase Agreement, dated May \_\_, 2015, by and between the City and the Underwriter (the "Purchase Contract"). Under the Purchase Contract, the Underwriter has agreed to purchase all, but not less than all, of the Bonds for an aggregate purchase price of \$\_\_\_\_\_ (representing the principal amount of the Bonds, less Underwriter's discount of \$\_\_\_\_\_, plus/less original issue premium/discount of \$\_\_\_\_\_). The Purchase Contract provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The initial public offering prices stated on the inside cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 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.

### **FINANCIAL STATEMENTS OF THE CITY**

Included herein as Appendix B are the audited financial statements of the City as of and for the Fiscal Year ended June 30, 2014, together with the report thereon dated December 30, 2014 of the Auditor (the "Financial Statements"). The Financial Statements have been included herein in reliance upon the report of the Auditor. The Auditor has not undertaken to update the Financial Statements of the City or its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report.

### **FINANCIAL INTERESTS**

The fees being paid to the Underwriter, Bond Counsel, Disclosure Counsel and Best Best & Krieger LLP, as counsel to the Underwriter, are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

**MISCELLANEOUS**

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The execution of this Official Statement and its delivery have been approved by the City Council.

CITY OF ESCONDIDO

By: \_\_\_\_\_  
City Manager

## APPENDIX A

### GENERAL DEMOGRAPHIC INFORMATION REGARDING THE CITY OF ESCONDIDO AND THE COUNTY OF SAN DIEGO

*Information contained herein is presented as general background data. The Bonds are payable solely from the ad valorem taxes of the City of Escondido (the "City"). The County of San Diego (the "County") and the State of California (the "State") have no obligation to make any payments with respect to the Bonds. See the Official Statement under the caption "SECURITY FOR THE BONDS" for a description of the security for the Bonds.*

#### **General**

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

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

#### **Government and Administration**

The City was incorporated in 1888 and is a general law city operating under a council/manager form of government. The City is governed by a five-member City Council. The Mayor is directly elected at large. Since 2014, the City has been divided into four districts, which are used for all regular elections of Council members. The City has an estimated population of 147,294 as of January 1, 2015, to which it provides police, fire, water and wastewater utilities, stormwater, parks and recreation, public works, planning, engineering and other services.

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

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

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

Sheryl Bennett is the Director of Administrative Services for the City. Ms. Bennett has been with the City since 1999. She has served in several management positions in the City's Human Resources Department, including Personnel Manager and Director. Ms. Bennett was appointed Director of Administrative Services in January 2014, with responsibility for the City's Human Resources and Finance Departments. Ms. Bennett

graduated from San Diego State University with a Bachelor of Science degree in Applied Arts and Sciences/Criminal Justice Administration. Ms. Bennett also has a Master of Business Administration from National University. Ms. Bennett is a member of the Government Finance Officers Association and the California Society of Municipal Finance Officers.

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

**Population**

The City is the largest inland city in North County with an estimated current population of 147,294. The table below sets forth total population for the City, the County of San Diego (the “County”) and the State of California (the “State”).

**CITY OF ESCONDIDO, COUNTY OF SAN DIEGO AND STATE OF CALIFORNIA  
Population**

<i>January 1</i>	<i>City of Escondido</i>	<i>County of San Diego</i>	<i>State of California</i>
2010	144,008	3,091,579	37,223,900
2011	144,998	3,115,810	37,427,946
2012	145,369	3,128,749	37,668,804
2013	146,115	3,154,574	37,984,138
2014	146,742	3,192,457	38,357,121
2015	147,294	3,227,496	38,714,725

Source: State of California, Department of Finance, *E-4 Population Estimates for Cities, Counties and State, 2001-2010, with 2000 & 2010 Census Counts and E-1 Population Estimates for Cities, Counties and State, 2011-2015 with 2010 Benchmark, Sacramento, California.*

**City Enterprise Operations**

The City provides police, fire, water and wastewater utilities, stormwater, parks and recreation, public works, planning, engineering and other services. A portion of the revenues from these enterprises is annually paid to the City’s General Fund for various administrative support services provided to the enterprises.

The City’s water and wastewater operations (which are divisions of the City’s Public Works Department) are self-supporting enterprises. The City supplies water to approximately 80% of the geographic area of the City, as well as a small unincorporated area of the County. The City’s water system has approximately 26,000 residential, commercial and agricultural customers. The water system includes water treatment facilities and a distribution system, 11 reservoirs and two City lakes, which are open to the public for recreational purposes and are used to store untreated water before its treatment at the City’s water treatment plant. The City’s water treatment plant has a designed capacity of 90 million gallons per day (“mgd”). Seventy-two mgd of such capacity is owned by the City and 18 mgd of such capacity is owned by the adjacent City of Vista. The City has local sources of water and also purchases imported water through the San Diego County Water Authority, a member of The Metropolitan Water District of Southern California.

The City treats wastewater for a service area of approximately 34 square miles that includes approximately 90% of the geographic area of the City. The City is the sole provider of sanitary sewer collection service within its service area and maintains approximately 379 miles of sewer pipelines. The Hale Avenue Resource Recovery Facility (the "HARRF") is the City's principal wastewater treatment facility. The HARRF is a standard activated sludge treatment plant. Treatment consists of physical, biological, and chemical methods, which include screening, sedimentation, chemical precipitation, and biological processes. The HARRF's rated capacity is 18 million gallons per day ("MGD"). 12.7 MGD of that capacity is owned by the City and 5.0 MGD with an option for an additional 0.3 MGD of total capacity is currently owned by the City of San Diego and serves the Rancho Bernardo community south of the City.

## **Retirement System**

*This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and actuaries. The City has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.*

*The comprehensive annual financial reports of CalPERS are available on its Internet website at [www.calpers.ca.gov](http://www.calpers.ca.gov). The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.*

**Summary of Plans.** The City contributes to CalPERS, an agent multiple-employer public employee defined benefit pension plan, on behalf of 756 total City employees who participate in the City's Miscellaneous Plan or the City's Safety Plan. CalPERS provides retirement, disability and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State, including the City.

Required employer and employee contributions are determined from rates established by CalPERS based upon various actuarial assumptions which are revised annually. The City currently funds the normal pension costs, which are determined by CalPERS using the Entry Age Normal Actuarial Cost Method, as well as an amortization of the City's unfunded actuarial liability. For the fiscal year of the City ended June 30 ("Fiscal Year"), 2014, the City's CalPERS contributions to the Miscellaneous Plan and Safety Plan were \$8,144,874 and \$7,662,810, respectively, which were equal to the annual required contribution (the "ARC") described below. For Fiscal Year 2015, the City's CalPERS contributions to its Miscellaneous Plan and Safety Plan are expected to be \$9,100,000 and \$8,700,000, respectively, assuming budgeted salaries and a contribution rate of 26.918% of annual covered payroll for the Miscellaneous Plan and 36.920% of annual covered payroll for the Safety Plan, which are equal to the respective ARCs. The contribution rates for Fiscal Year 2016 have been established at 28.820% of annual covered payroll for the Miscellaneous Plan and 37.089% of annual covered payroll for the Safety Plan.

Participants in Tier 1 of the City's CalPERS Miscellaneous Plan (3% at 60 formula) are required to contribute 8% of their annual covered salary for employee member contributions. Prior to June 26, 2011 or August 7, 2011, depending upon the employees' bargaining unit, the City paid 7/8ths of the employee member contributions required of Miscellaneous Plan participants on their behalf and for their account. The City no longer pays any portion of the contributions required of Miscellaneous Plan participants on their behalf; such employees are required to make 100% of their required 8% contribution to the Miscellaneous Plan.

The City's CalPERS Miscellaneous Plan Tier 2 (2% at 60 formula) applies to new employees with no prior public service hired on or after December 23, 2012 and before December 31, 2012 and also to new employees with reciprocal prior public service and six months or less of a break in service hired after December 23, 2012. Tier 2 participants are required to contribute 7% of their annual covered salary for employee member contributions. The City does not pay any portion of such contributions. Benefits for Tier 2 participants are calculated on the highest average annual compensation over a consecutive 36 month period.

Participants in Tier 1 of the City's CalPERS Safety Plan (3% at 50 formula) are required to contribute 9% of their annual covered salary for employee member contributions. Prior to January 1, 2013, the City paid all of the Tier 1 police employees' required contribution to the Safety Plan on their behalf and for their account. By agreement with the City, Tier 1 Fire Department employees pay their own required contributions. Since January 1, 2013, police employees participating in Tier 1 of the City's Safety Plan are required to contribute the full 9% of their annual covered salary.

The City's CalPERS Safety Plan Tier 2 (2% at 50 formula) applies to newly hired employees with prior reciprocal public service and six months or less of a break in service. Tier 2 participants are required to contribute the full 9% of their annual covered salary for employee member contributions. The City does not pay any portion of such contributions. Benefits for Tier 2 participants are calculated on the highest average annual compensation over a consecutive 36 month period.

Employees hired on or after January 1, 2013 who meet the definition of a "New Member" are subject to the California Public Employees' Pension Reform Act of 2013 ("AB 340"), which was signed by the State Governor on September 12, 2012. AB 340 established a third pension tier (2% at 62 formula for Miscellaneous Plan employees) with a maximum benefit formula of 2.5% at age 67 and (2.7% at 57 formula for Safety Plan employees). Benefits for Tier 3 participants are calculated on the highest average annual compensation over a consecutive 36 month period. Employees are required to pay at least 50% of the total normal cost rate. Tier 3 participants are currently required to contribute 6.25% of their annual covered salary under the Miscellaneous Plan and 12.25% of their annual covered salary under the Safety Plan. The City does not pay any portion of such contributions. See the caption "—AB 340" below.

The City had an unfunded accrued liability of \$72,752,800 for the Safety Plan as of June 30, 2013 based on a market value of assets of \$213,084,280 as set forth in the most recent actuarial report prepared by CalPERS, and an estimated unfunded accrued liability of \$74,817,741 for the Safety Plan for Fiscal Year 2014. The City had an unfunded accrued liability of \$97,311,036 for the Miscellaneous Plan as of June 30, 2013, based on a market value of assets of \$219,521,228 as set forth in the most recent actuarial report prepared by CalPERS, and an estimated unfunded accrued liability of \$99,455,018 for the Miscellaneous Plan for Fiscal Year 2014.

Under Government Accounting Standards Board ("GASB") Statement No. 27, an employer reports an annual pension cost equal to the ARC plus an adjustment for the cumulative difference between the annual pension cost and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation and may be positive or negative. The ARC for Fiscal Year 2014 was determined by an actuarial valuation of the plan as of June 30, 2012 and the ARC for Fiscal Year 2015 has been determined by an actuarial valuation of the plan as of June 30, 2013.

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The following table summarizes the City's annual required contributions for its Miscellaneous Plan for the last five Fiscal Years:

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>City-Funded Employee Contribution</i>	<i>Employee Contribution</i>	<i>Annual Pension Cost</i>	<i>Percentage of Annual Pension Cost Contributed</i>
2010	\$6,181,753	\$2,307,745	\$ 339,802	\$6,181,753	100%
2011	6,265,276	2,170,405	322,381	6,265,276	100
2012	6,821,337	309,255	2,091,783	6,821,337	100
2013	7,321,546	15,452	2,438,480	7,321,546	100
2014	8,144,874	-	2,555,076	8,144,874	100

The following table summarizes the City's annual required contributions for its Safety Plan for the last five Fiscal Years:

<i>Fiscal Year</i>	<i>Employer Contribution</i>	<i>City-Funded Employee Contribution</i>	<i>Employee Contribution</i>	<i>Annual Pension Cost</i>	<i>Percentage of Annual Pension Cost Contributed</i>
2010	\$6,448,527	\$1,724,738	\$ 202,680	\$6,448,527	100.00%
2011	6,299,964	1,209,538	646,850	6,299,964	100.00
2012	6,850,763	1,163,902	651,350	6,850,763	100.00
2013	6,899,676	1,103,872	740,536	6,899,676	100.00
2014	7,662,810	550,585	1,480,102	7,662,810	100.00

The following table sets forth the schedule of funding for the City's Miscellaneous Plan. The employer contribution rate for Fiscal Year 2015 is 26.918% of annual covered payroll.

<i>Valuation Date</i>	<i>Entry Age Normal Accrued Liability</i>	<i>Actuarial Value of Assets</i>	<i>Unfunded Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Funded Ratio<sup>(1)</sup></i>	<i>Annual Covered Payroll</i>
06/30/09	\$263,284,777	\$199,668,046	\$63,616,731	\$145,530,960	55.3%	\$36,734,986
06/30/10	273,248,044	211,856,211	61,391,833	166,203,118	60.8	33,837,511
06/30/11	289,371,286	224,366,487	65,004,799	199,803,578	69.0	32,582,511
06/30/12	301,925,404	235,998,321	65,927,083	197,104,309	65.3	31,403,451
06/30/13	316,832,264	219,521,228 <sup>(2)</sup>	97,311,036	219,521,228	69.3	31,961,445

<sup>(1)</sup> Based on the market value of assets.

<sup>(2)</sup> Beginning with the 6/30/2013 actual valuation, the actuarial value of assets equals the market value of assets.

Source: CalPERS Actuarial Report Dated October 2014.

The following table sets forth the schedule of funding for the City's Safety Plan. The employer contribution rate for Fiscal Year 2015 is 36.920% of annual covered payroll.

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<i>Valuation Date</i>	<i>Entry Age Normal Accrued Liability</i>	<i>Actuarial Value of Assets</i>	<i>Unfunded Actuarial Accrued Liability</i>	<i>Market Value of Assets</i>	<i>Funded Ratio<sup>(1)</sup></i>	<i>Annual Covered Payroll</i>
06/30/09	\$242,874,783	\$196,476,776	\$46,398,007	\$143,876,356	59.2%	\$21,466,012
06/30/10	252,291,718	207,089,159	45,201,859	162,984,448	64.6	21,499,550
06/30/11	264,683,120	219,102,277	45,580,843	195,816,048	74.0	20,389,124
06/30/12	277,251,472	229,827,258	47,424,214	192,487,710	69.4	19,568,948
06/30/13	285,837,080	213,084,280 <sup>(2)</sup>	72,752,800	213,084,280	74.5	19,983,630

<sup>(1)</sup> Based on the market value of assets.

<sup>(2)</sup> Beginning with the 6/30/2013 actual valuation, the actuarial value of assets equals the market value of assets.

Source: CalPERS Actuarial Report Dated October 2014.

CalPERS reported significant investment losses in 2009. CalPERS earnings reports for Fiscal Years 2010, 2011, 2012, 2013 and 2014 reported an investment gain of 13.0%, 21.7%, 1%, 12.5% and 18.4%, respectively. Future earnings performance may increase or decrease future contribution rates for plan participants, including the City. The CalPERS pension trust pays all retiree benefit payments associated with the City's Miscellaneous Plan and Safety Plan.

**Actuarial Methods.** The staff actuaries at CalPERS annually prepare an actuarial valuation which covers a Fiscal Year ending approximately 15 months before the actuarial valuation is delivered (thus, the actuarial valuations delivered to the City in October 2014 covered the City's Fiscal Year ended June 30, 2013). The actuarial valuations express the City's required contribution rates in percentages of covered payroll, which percentages the City must contribute in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City's contribution rate derived from the actuarial valuation as of June 30, 2012, which was delivered in October 2013, affects the City's Fiscal Year 2015 required contribution rate). CalPERS rules require the City to implement the actuary's recommended rates. CalPERS provides a lump sum payment option that the City may opt to pay in July of each year, rather than having payment transmitted as a percentage of each reported biweekly payroll.

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

In each actuarial valuation, the CalPERS actuary estimates the actuarial value of the assets (the "Actuarial Value") of the CalPERS plans at the end of the Fiscal Year (which assumes, among other things, that the rate of return during that Fiscal Year equaled the assumed rate of return, currently 7.5%). As described below, these policies and actuarial assumptions have changed significantly in recent years and are expected to change or be modified further by CalPERS in the future. The CalPERS actuary uses a smoothing technique to

determine Actuarial Value that is calculated based on certain policies. Certain significant recent changes in assumptions include the following:

1. On April 17, 2013, the CalPERS Board approved a plan: (i) to replace the current 15 year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30 year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS' Chief Actuary has stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers such as the City about future contribution rates. These changes are expected to accelerate the repayment of unfunded liabilities (including CalPERS' fiscal year 2009 market losses described below) of the City's Miscellaneous Plan and Safety Plan in the near term; the exact magnitude of the potential contribution rate increases is not known at this time, but may be significant. These changes will be reflected beginning with the June 30, 2014 actuarial valuation affecting contribution rates for Fiscal Year 2016 and thereafter. As a preliminary estimate, the City has currently budgeted for increases in its annual pension contributions of approximately \$1,000,000 per year for the Miscellaneous Plan and the Safety Plan.

2. On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial assumptions used to determine employer contribution rates. This reduced the assumed investment return from 7.75% to 7.5%, reduced the long-term payroll growth assumption from 3.25% to 3.0%, and adjusted the inflation component of individual salary scales from 3.25% to a merit scale varying by duration of employment, an assumed annual inflation component of 3% and an annual production growth of 0.25%. Although the full impact of such changes is not yet clear, CalPERS has estimated that they could result in net increases in future contribution levels of approximately 1% to 2%; however, the reduction in the inflation assumption could partially mitigate increases, if any, in the City's required annual contributions resulting from the reduction in the assumed investment rate of return, as described above.

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

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

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

***Changes in Pension Accounting Standards.*** Reporting obligations under GASB Statement No. 68 ("GASB 68") will commence with financial statements for Fiscal Year 2015. Under GASB 68, there are new standards for measuring and recognizing pension liabilities, deferred outflows and inflows of resources, and expense/expenditures. GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute such present value to periods of employee service.

***AB 340.*** On September 12, 2012, the State Governor signed AB 340, which implements pension reform in California. Effective January 1, 2013, AB 340: (i) requires public retirement systems and their participating employers to share equally with employees the normal cost rate for such retirement systems; (ii) prohibits employers from paying employer paid member contributions to such retirement systems for employees hired after January 1, 2013; (iii) establishes a compulsory maximum non safety benefit formula of 2.5% at age 67; (iv) defines final compensation as the highest average annual pensionable compensation earned during a 36 month period; and (v) caps pensionable income at \$110,100 (\$132,120 for employees not enrolled in Social Security) subject to Consumer Price Index increases.

Other provisions reduce the risk of the City incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting

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

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

***Change in Pensionable Compensation.*** On August 21, 2014, the CalPERS Board approved changes to clarify the types of compensation upon which pension benefits are based, primarily for employees hired after January 1, 2013. Under the changes, the CalPERS Board identified several dozen specific types of compensation which will count toward pension benefit calculations, including temporary and special assignment payments and certain categories of tasks, and identified types of compensation that will not be included in pension benefit calculations. Although the changes could result in an increase in the City’s future CalPERS contributions, it is not currently possible to quantify the magnitude of such increases. The City believes that any such changes would be immaterial to its CalPERS contributions.

For additional information relating to the City’s plan, see Note 12 to the City’s audited financial statements for Fiscal Year 2014 attached hereto as Appendix B.

No assurance can be provided that the City’s CalPERS plan expenses will not increase significantly in the future.

**No Other Post-Employment Benefits**

The City does not currently provide post-retirement health benefits to any of its employees.

**Labor Relations**

The City had approximately 1,090 full- and part-time employees as of June 30, 2014. City employees are represented by six labor unions and associations. The six employee groups are shown below. Certain management and confidential employees are exempt from collective bargaining. Salaries for exempt and non-exempt employees are adopted by the City Council. The City has never experienced a strike, slowdown or work stoppage.

	<i>Employee Group</i>	<i>Employees</i>	<i>Contract Expires</i>
1.	Police	147	December 31, 2016
2.	Police non-sworn	31	June 30, 2016
3.	Fire	85	December 31, 2016
4.	Administrative, Clerical and Engineering	105	June 30, 2015
5.	Maintenance and Operations	148	June 30, 2015
6.	Supervisory	44	June 30, 2015

The City has commenced negotiations with the Administrative, Clerical and Engineering, Maintenance and Operations and Supervisory bargaining units with respect to new memoranda of understanding extending beyond June 30, 2015. In the event that the City does not enter into new memoranda of understanding with such bargaining units prior to the respective expiration dates of the current memoranda of understanding, the City expects relations with such bargaining units to continue to be governed by the terms of the current memoranda of understanding until new memoranda of understanding are entered into.

## **City Finances**

The following selected financial information provides a brief overview of the City's finances. This financial information has been extracted from the City's audited financial statements for the Fiscal Year ended June 30, 2014 (the "Financial Statements"), from audited financial statements for prior Fiscal Years and, in some cases, from unaudited information provided by the City's Finance Department. The Financial Statements, together with an unqualified opinion of Lance, Soll & Lunghard, LLP, Brea, California (the "Auditor") are included as Appendix B. The Auditor has not performed any post-audit analysis of the financial condition of the City.

Accompanying the Financial Statements in Appendix B is the City Management Discussion and Analysis, which is not audited, but is supplementary information required by GASB. The Management Discussion and Analysis presents a summary and overview of the City's financial condition. The Management Discussion and Analysis should be reviewed in conjunction with the information presented below to obtain an understanding of the City's financial condition.

## **Accounting Policies and Financial Reporting**

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

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

The accounts of the City are organized on the basis of funds and account groups, which is the basic fiscal and accounting entity in governmental accounting. The three broad fund categories include governmental, proprietary and fiduciary funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The basis of accounting for all funds is more fully explained in the notes to the Financial Statements.

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The tables set forth below under the captions "Budgetary Process," "Change in Fund Balance of the City General Fund" and "General Fund Balance Sheets of the City" include certain historical and current Fiscal Year budget information for the General Fund. Information on the remaining governmental funds of the City as of June 30, 2014 is set forth in Appendix B.

## **General Economic Condition and Outlook of the City**

As of June 30, 2014, the General Fund had a year-end surplus (revenues in excess of expenditures) of approximately \$260,393. This surplus was primarily due to actual expenditures being less than budgeted expenditures by approximately \$1.1 million.

For Fiscal Year 2015, the adopted General Fund operating budget projected revenues (excluding transfers from other funds and certain fees) totaling \$86,280,900, an increase of approximately \$5.2 million

(6.4%) over Fiscal Year 2014 actual revenues, and expenditures of \$87,586,765, an increase of approximately \$6.8 million (8.4%) over Fiscal Year 2014 actual expenditures. The Fiscal Year 2015 General Fund budget projected that sales taxes and property taxes in lieu of sales taxes will continue to grow in Fiscal Year 2015, increasing by approximately 9.2% and 10.3%, respectively, over the Fiscal Year 2014 revised budgeted amount.

As discussed below under the caption “Budgetary Process,” the City believes that, as of the mid-point of the current Fiscal Year, both revenues (primarily sales taxes) and expenditures will come in under its budgeted expectations.

### **Budgetary Process**

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

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

The City Council adopted the Fiscal Year 2015 budget on June 11, 2014. The City’s Fiscal Year 2015 operating budget for all funds totals approximately \$181.5 million and its General Fund operating budget totals approximately \$87.6 million. The Fiscal Year 2015 General Fund operating budget projected an increase in revenues of approximately \$4.5 million, or 5.6%, over the Fiscal Year 2014 revised budget, derived principally from sales tax, property tax and property tax in lieu of sales tax revenues.

The Fiscal Year 2015 General Fund operating budget set forth below shows revenues and expenditures from City operations only. The City did not make any transfers to the Successor Agency in Fiscal Years 2014 or 2015. See the caption “Redevelopment Dissolution.”

As of December 31, 2014, the City reports that General Fund revenues are at 27.5% of budget, while expenditures are at 47.1% of budget. Based on the City’s past history of revenue receipts and payment of expenditures through such period, the City believes that both General Fund revenues and expenditures will be below the City’s projections for the current Fiscal Year, as described below.

Sales tax receipts through December 31, 2014 were lower than projected in the Fiscal Year 2015 General Fund operating budget by approximately \$700,000. The reason for this shortfall was that budgeted Fiscal Year 2014 sales tax receipts (upon which Fiscal Year 2015 sales tax projections were based) overestimated actual Fiscal Year 2014 sales tax receipts by approximately \$1,300,000. In addition, sales tax receipts were projected to grow by approximately 9% in Fiscal Year 2015, while actual first and second quarter sales tax growth was 6% and 3%, respectively.

Based on actual sales tax receipts for the first two quarters of Fiscal Year 2015, the City believes that the Fiscal Year 2015 full year sales tax projection should be lowered by approximately \$1,900,000, including the shortfall from the Fiscal Year 2014 sales tax base of approximately \$1,300,000 and the projected shortfall due to lower than expected sales tax growth of approximately \$600,000.

Total General Fund revenues are projected to end Fiscal Year 2015 under budget by approximately \$1,400,000, reflecting reduced sales tax projections described in the preceding paragraph and offsetting increases in projected property tax, business license fee, transient occupancy tax and other revenues. In

addition, General Fund expenditures are projected to end Fiscal Year 2015 under budget by approximately \$1,500,000. Based on these projections, the City believes that Fiscal Year 2015 General Fund revenues will approximately match General Fund expenditures on a net basis. Accordingly, the City does not believe that the fact that actual sales tax revenues are likely to be below projections will have a material adverse effect on the General Fund overall.

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Set forth below are the General Fund budgets for Fiscal Years 2013, 2014 and 2015 and the audited General Fund results for Fiscal Years 2013 and 2014. During the course of each Fiscal Year, the budget is amended and revised as necessary by the City Council.

**CITY OF ESCONDIDO  
General Fund Budgets and Results**

	<i>Adopted Fiscal Year 2013 Budget</i>	<i>Fiscal Year 2013 Results</i>	<i>Adopted Fiscal Year 2014 Budget</i>	<i>Fiscal Year 2014 Results</i>	<i>Adopted Fiscal Year 2015 Budget<sup>(6)</sup></i>
<b>Revenues</b>					
Sales tax	\$ 29,923,000	\$ 30,838,544	\$ 34,841,500	\$ 32,277,295	\$ 36,763,000
Other taxes <sup>(1)</sup>	30,680,000	31,592,579 <sup>(2)</sup>	30,526,000	32,588,510 <sup>(3)</sup>	32,905,000
Licenses and permits	994,000	887,383	934,000	991,164	944,000
Fines and forfeits	1,526,000	1,468,309	1,416,500	1,184,292	1,040,000
Intergovernmental	2,577,500	2,656,373 <sup>(2)</sup>	2,527,500	3,034,876 <sup>(3)</sup>	2,827,500
Charges for services	6,242,000	6,271,737	6,178,500	7,500,560	7,224,235
Investment income	560,000	(206,715) <sup>(4)</sup>	450,000	156,253	250,000
Miscellaneous	<u>3,359,000</u>	<u>3,975,571</u>	<u>3,820,915</u>	<u>3,329,114</u>	<u>4,327,165<sup>(7)</sup></u>
<b>Total Revenues</b>	<b>\$ 75,861,500</b>	<b>\$ 77,483,781</b>	<b>\$ 80,694,915</b>	<b>\$ 81,062,064</b>	<b>\$ 86,280,900</b>
<b>Expenditures</b>					
Current					
General government	\$ 8,806,525	\$ 5,303,315	\$ 6,516,670	\$ 5,607,850	\$ 7,239,215
Public safety	50,553,235	53,014,629	55,620,365	56,166,466	59,767,365
Public works	9,532,355 <sup>(5)</sup>	10,292,856	10,330,295 <sup>(5)</sup>	9,813,633	10,215,030 <sup>(5)</sup>
Community services	4,126,375	5,939,584	6,262,630	6,234,010	6,910,100
Community development	<u>3,018,605</u>	<u>2,895,728</u>	<u>3,161,655</u>	<u>2,979,712</u>	<u>3,455,055</u>
<b>Total Expenditures</b>	<b>\$ 76,037,095</b>	<b>\$ 77,446,112</b>	<b>\$ 81,891,615</b>	<b>\$ 80,801,671</b>	<b>\$ 87,586,765</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>					
	<b>\$ (175,595)<sup>(5)</sup></b>	<b>\$ 37,669</b>	<b>\$ (1,196,700)<sup>(5)</sup></b>	<b>\$ 260,393</b>	<b>\$ (1,305,865)<sup>(5)</sup></b>

<sup>(1)</sup> Includes property tax revenues. See the caption “—Property Taxes.”

<sup>(2)</sup> These amounts differ from the Fiscal Year 2013 Other taxes and Intergovernmental amounts shown on the table entitled “General Fund Statement of Revenues, Expenditures and Changes in Fund Balance” under the caption “Change in Fund Balance of the City General Fund” because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City’s Auditor reflects such revenues as Intergovernmental. See the caption “State of California Motor Vehicle In-Lieu Payments.”

<sup>(3)</sup> These amounts differ from the Fiscal Year 2014 Other taxes and Intergovernmental amounts shown on the table entitled “General Fund Statement of Revenues, Expenditures and Changes in Fund Balance” under the caption “Change in Fund Balance of the City General Fund” because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City’s Auditor reflects such revenues as Intergovernmental. See the caption “State of California Motor Vehicle In-Lieu Payments.”

<sup>(4)</sup> Decrease from budgeted amount in Fiscal Year 2013 reflects an unrealized net loss on investments of \$443,340.

<sup>(5)</sup> A \$2,055,000 portion of Public works expenditures was funded by transfers from the City’s Gas Tax Fund to the General Fund in each of Fiscal Years 2013, 2014 and 2015 to cover street maintenance.

<sup>(6)</sup> See the prior page for a discussion of sales tax revenues and expenditures, which are projected to be lower than budgeted.

<sup>(7)</sup> Increase from budgeted amount in Fiscal Year 2014 reflects rental income from Westfield North County shopping center lease and an increase in residual payments from the Redevelopment Property Tax Trust Fund. See the caption “Redevelopment Dissolution.”

Sources: Adopted budgets of the City for Fiscal Years 2013, 2014 and 2015; audited financial statements of the City for Fiscal Years 2013 and 2014.

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## Change in Fund Balance of the City General Fund

Set forth below are the City's audited General Fund statements of revenues, expenditures and changes in fund balance for the last five Fiscal Years.

### CITY OF ESCONDIDO General Fund Statement of Revenues, Expenditures and Changes in Fund Balance

	<i>Fiscal Year Ended June 30</i>				
	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
<b>Revenues</b>					
Sales tax	\$ 21,798,209	\$ 25,147,482	\$ 27,753,928	\$ 30,838,544	\$ 32,277,295
Other taxes <sup>(1)</sup>	18,676,610	18,321,184	20,881,587	21,164,542 <sup>(2)</sup>	21,920,254 <sup>(5)</sup>
Licenses and permits	1,307,415	1,156,228	821,380	887,383	991,164
Fines and forfeits	2,186,227	1,895,447	1,640,528	1,468,309	1,184,292
Intergovernmental	13,194,970	13,079,190	13,410,122	13,084,410 <sup>(2)</sup>	13,703,132 <sup>(5)</sup>
Charges for services	6,088,241	5,585,867	5,518,276	6,271,737	7,500,560
Investment income	75,557	15,613,188 <sup>(3)</sup>	479,015	(206,715) <sup>(4)</sup>	156,253
Miscellaneous	4,328,801	3,826,721	3,834,415	3,975,571	3,329,114
<b>Total Revenues</b>	<b><u>\$ 67,656,030</u></b>	<b><u>\$ 84,625,307<sup>(3)</sup></u></b>	<b><u>\$ 74,339,251</u></b>	<b><u>\$ 77,483,781</u></b>	<b><u>\$ 81,062,064</u></b>
<b>Expenditures</b>					
<b>Current</b>					
General government	\$ 6,345,031	\$ 6,493,939	\$ 5,542,551	\$ 5,229,026	\$ 5,584,674
Public safety	50,669,962	49,456,324	50,489,310	53,014,629	56,166,466
Public works	10,457,660	8,761,589	9,145,268	10,292,856	9,813,633
Community services	4,905,872	6,327,405	5,434,919	5,939,584	6,234,010
Community development	3,161,816	2,651,499	2,720,161	2,895,728	2,979,712
Capital outlay	-	-	52,928	52,928	-
Debt service	-	-	-	51,114	-
Principal retirements	-	-	18,299	23,175	23,175
Interest and fiscal charges	-	-	-	-	-
<b>Total Expenditures</b>	<b><u>\$ 75,540,341</u></b>	<b><u>\$ 73,690,756</u></b>	<b><u>\$ 73,403,436</u></b>	<b><u>\$ 77,446,112</u></b>	<b><u>\$ 80,801,671</u></b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b><u>\$ (7,884,311)</u></b>	<b><u>\$ 10,934,551</u></b>	<b><u>\$ 935,815</u></b>	<b><u>\$ 37,669</u></b>	<b><u>\$ 260,393</u></b>
<b>Other Financing Sources (Uses)</b>					
Sale of capital assets	\$ -	\$ 231,586	\$ -	\$ -	\$ 537,293
Loan proceeds	-	-	172,232	-	-
Transfers in	2,981,999	3,353,404	4,422,708	2,228,381	2,278,879
Transfers out	(4,197,365)	(11,415,685) <sup>(6)</sup>	(1,730,678)	(1,190,340)	(3,830,037)
<b>Total Other Financing Sources (Uses)</b>	<b><u>\$ (1,215,366)</u></b>	<b><u>\$ (7,830,695)</u></b>	<b><u>\$ 2,864,262</u></b>	<b><u>\$ 1,038,041</u></b>	<b><u>\$ (1,013,865)</u></b>
<b>Net Change in Fund Balance</b>	<b>\$ (9,099,677)</b>	<b>\$ 3,103,856</b>	<b>\$ 3,800,077</b>	<b>\$ (8,756,942)<sup>(9)</sup></b>	<b>\$ (753,472)</b>
<b>Fund Balances, Beginning of Year</b>					
	<b><u>\$ 41,125,374</u></b>	<b><u>\$ 31,820,260<sup>(7)</sup></u></b>	<b><u>\$ 34,924,116</u></b>	<b><u>\$ 29,698,747<sup>(8)</sup></u></b>	<b><u>\$ 20,941,805</u></b>
<b>Fund Balances, End of Year</b>	<b><u>\$ 32,025,697</u></b>	<b><u>\$ 34,924,116</u></b>	<b><u>\$ 38,724,193<sup>(8)</sup></u></b>	<b><u>\$ 20,941,805</u></b>	<b><u>\$ 20,188,333</u></b>

<sup>(1)</sup> Includes property tax revenues. See the caption "—Property Taxes."

<sup>(2)</sup> These amounts differ from the Fiscal Year 2013 Other taxes and Intergovernmental amounts shown on the table entitled "General Fund Budgets and Results" under the caption "Budgetary Process" because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City's Auditor reflects such revenues as Intergovernmental. See the caption "State of California Motor Vehicle In-Lieu Payments."

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- (3) Increase from Fiscal Year 2010 amount in Fiscal Year 2011 reflects payment to the City on the Redevelopment Loan. The City returned such moneys to the Successor Agency in Fiscal Year 2013. See the caption “Redevelopment Dissolution—Repayment of Moneys to Successor Agency.”
- (4) Decrease from Fiscal Year 2012 amount reflects an unrealized net loss on investments of \$443,340.
- (5) These amounts differ from the Fiscal Year 2014 Other taxes and Intergovernmental amounts shown on the table entitled “General Fund Budgets and Results” under the caption “Budgetary Process” because the City budgets property tax revenues in lieu of Vehicle License Fees as Other taxes, while the City’s Auditor reflects such revenues as Intergovernmental. See the caption “State of California Motor Vehicle In-Lieu Payments.”
- (6) Increase from Fiscal Year 2010 amount in Fiscal Year 2011 reflects expenditure of \$6,740,744.82 from moneys paid to the City on the Redevelopment Loan to purchase two properties. The City transferred such properties to the Successor Agency on July 25, 2012 and the Successor Agency transferred such properties back to the City in May 2013 in exchange for \$6,740,744.82 in cash. See the caption “Redevelopment Dissolution—Repayment of Moneys to Successor Agency.” Also reflects expenditure of approximately \$4,200,000 advanced from the City’s Wastewater Fund to purchase a property that was used as a public works yard for the City’s Wastewater System.
- (7) As restated. Prior to Fiscal Year 2011, the City’s California Center for the Arts was previously treated as a blended component unit. Restatement reflects treatment of California Center for the Arts as a discrete unit. See the caption “Culture and Recreation.”
- (8) Fiscal Year 2012 amount does not reflect payment of \$13,259,255.18 in cash and transfer of two properties to the Successor Agency on July 25, 2012 or payment of \$6,740,744.82 in cash in exchange for transfer of such properties back to the City in May 2013. See the caption “Redevelopment Dissolution—Repayment of Moneys to Successor Agency.” The net effect of such return and transfers in Fiscal Year 2013 was to decrease the General Fund ending balance by \$8,347,410. The Fiscal Year 2012 General Fund ending balance was restated in the Fiscal Year 2013 financial statements to reflect such decrease. See the caption “Budgetary Process.”
- (9) Includes an extraordinary loss of \$9,832,652 resulting from removal of the amount due under the Redevelopment Loan from the City’s balance sheet. See the caption “Redevelopment Dissolution.”

Sources: Audited financial statements for Fiscal Years 2010 through 2014.

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## General Fund Balance Sheets of the City

Set forth in Table 3 are the City's audited General Fund balance sheets for the last five audited Fiscal Years.

### CITY OF ESCONDIDO General Fund Balance Sheets

	<i>Fiscal Year Ended June 30</i>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Assets</b>					
Cash and investments	\$ 21,301,284	\$ 32,088,917 <sup>(1)</sup>	\$ 31,790,494 <sup>(1)</sup>	\$ 15,194,450 <sup>(5)</sup>	\$ 17,263,978
Receivables (net)					
Accounts	1,710,145	2,474,736	5,224,649	3,774,067	4,101,035
Interest	239,221	307,078	199,926	78,125	73,018
Taxes	5,748,249	6,481,956	8,140,945	8,104,228	8,260,243
Loan	133,750	106,321	74,041	61,444	58,440
Due from					
Other funds	313,020	488,647	1,584,835	605,221	1,158,720
Other governments	89,900	108,204	14,783,697 <sup>(2)</sup>	112,779	227,534
Prepaid expenditures	170,000	270,000	-	-	-
Deposits	-	-	26,250	-	-
Land held for resale, at cost	-	-	-	6,602,708 <sup>(6)</sup>	-
Advances to other funds	9,991,902	14,192,059 <sup>(3)</sup>	159,250	159,250	159,250
<b>Total Assets</b>	<u>\$ 39,697,471</u>	<u>\$ 56,517,918</u>	<u>\$ 61,984,087</u>	<u>\$ 34,152,272</u>	<u>\$ 31,302,218</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Payable					
Accounts	\$ 1,348,621	\$ 972,306	\$ 1,824,760	\$ 1,514,455	\$ 1,794,570
Deposits	146,498	236,254	314,480	490,857	554,598
Accrued expenditures	2,876,877	3,013,764	1,179,956	1,544,718	2,003,468
Due to other funds	-	-	-	-	-
Deferred revenue	3,299,778	13,171,478 <sup>(3)</sup>	15,400,698	-	6,431,249 <sup>(7)</sup>
Advances from other funds	-	4,200,000	4,540,000	4,220,000	330,000
<b>Total Liabilities</b>	<u>\$ 7,671,774</u>	<u>\$ 21,593,802</u>	<u>\$ 23,259,894</u>	<u>\$ 7,770,030</u>	<u>\$ 4,682,636</u>
<b>Fund Balances</b>					
Nonspendable	\$ -	\$ 5,456,377	\$ 5,180,347	\$ 2,503,401	\$ 217,690
Committed to	-	28,354,588	31,938,244	17,210,596	17,319,659
Assigned to	-	713,361	852,481	980,678	897,465
Unassigned	-	399,790	753,121	247,130	1,753,519
Reserved for					
Advances to other funds	9,991,902	-	-	-	-
Noncurrent loans receivable	133,750	-	-	-	-
Prepaid expenditures	170,000	-	-	-	-
Encumbrances	35,655	-	-	-	-
Unreserved; designated – General Fund					
Capital improvements	-	-	-	-	-
Carryovers	29,710	-	-	-	-
Daley Ranch improvements	196,465	-	-	-	-
Economic development	-	-	-	-	-
Economic uncertainty	20,241,562	-	-	-	-
Library trust	334,213	-	-	-	-
Underground waivers	191,317	-	-	-	-
Downtown hotel	-	-	-	-	-
Investment fair value adjustment	701,123	-	-	-	-
Undesignated	-	-	-	-	-
<b>Total Fund Balances</b>	<u>\$ 32,025,697</u>	<u>\$ 34,924,116</u>	<u>\$ 38,724,193<sup>(4)</sup></u>	<u>\$ 20,941,805<sup>(5)</sup></u>	<u>\$ 20,188,333</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 39,697,471</u>	<u>\$ 56,517,918</u>	<u>\$ 61,984,087<sup>(4)</sup></u>	<u>\$ 34,152,272<sup>(5)</sup></u>	<u>\$ 31,302,218</u>

<sup>(1)</sup> Does not reflect payment of \$13,259,255.18 in cash and transfer of two properties to the Successor Agency on July 25, 2012 or payment of \$6,740,744.82 in cash in exchange for transfer of such properties back to the City in May 2013. See the caption "Redevelopment Dissolution—Repayment of Moneys to Successor Agency."

(Footnotes Continued on Following Page)

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- (2) Reflects amount due on Redevelopment Loan. See the caption “Redevelopment Dissolution—Repayment of Moneys to Successor Agency.” In Fiscal Year 2013, the City treated such amount as an extraordinary loss. The City has not reflected the amount due under the Redevelopment Loan in its audited financial statements since Fiscal Year 2012.
  - (3) Reflects change in accounting treatment of Redevelopment Loan. See the caption “Redevelopment Dissolution—Repayment of Moneys to Successor Agency.” In Fiscal Year 2013, the City treated such amount as an extraordinary loss. The City has not reflected the amount due under the Redevelopment Loan in its audited financial statements since Fiscal Year 2012.
  - (4) Does not reflect payment of \$13,259,255.18 in cash and transfer of two properties to the Successor Agency on July 25, 2012 or payment of \$6,740,744.82 in cash in exchange for transfer of such properties back to the City in May 2013. See the caption “Redevelopment Dissolution—Repayment of Moneys to Successor Agency.” The net effect of such return and transfers in Fiscal Year 2013 was to decrease the General Fund ending balance by \$8,347,410. The Fiscal Year 2012 General Fund ending balance was restated in the City’s Fiscal Year 2013 financial statements to reflect such decrease. See the caption “Budgetary Process.”
  - (5) Decrease from Fiscal Year 2012 reflects the payment of \$13,259,255.18 in cash to the Successor Agency on July 25, 2012 and the payment of \$6,740,744.82 in cash to the Successor Agency in May 2013. See the caption “Redevelopment Dissolution—Repayment of Moneys to Successor Agency.”
  - (6) Reflects reclassification of property that was originally purchased by the City in 2010 as land held for resale as of June 30, 2013. Such property was held in escrow on the City’s balance sheet date and no longer used in operations. The property was sold on December 20, 2013.
  - (7) Unavailable. Not included in Total Liabilities.
- Source: Audited financial statements for Fiscal Years 2010 through 2014.

## Property Taxes

Property tax receipts of \$10,556,483 provided the third largest tax revenue source of the City in Fiscal Year 2014, contributing approximately 19.5% of General Fund tax revenues and approximately 13.0% of total General Fund revenues during Fiscal Year 2014. Property tax revenues are included within “Other Revenues” in the tables under the captions “Budgetary Process” and “Change in Fund Balance of the City General Fund.” See the Official Statement under the caption “PROPERTY TAXATION” for historical property tax receipts of the City.

## Sales Taxes

Sales tax receipts of \$32,277,295 provided the largest tax revenue source for the City in Fiscal Year 2014, contributing approximately 59.6% of General Fund tax revenues and approximately 39.8% of total General Fund revenues during Fiscal Year 2014. Automobile sales and retail sales at Westfield North County mall contribute significantly to such receipts.

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

On March 2, 2004, voters approved a bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion of Economic Recovery Bonds to finance ongoing State budget deficits, which are payable from a fund established by the redirection of tax revenues known as the “Triple Flip.” The State issued \$11.3 billion of Economic Recovery Bonds prior to June 30, 2004. Under the “Triple Flip,” one-quarter of local governments’ 1% share of the sales tax imposed on taxable transactions within their jurisdiction is being redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, State legislation provides for certain property taxes to be redirected to local government. Because these property tax moneys were previously earmarked for schools, the legislation provides for schools to receive other State general fund revenues. It is expected that the swap of sales taxes for property taxes will terminate shortly after the Economic Recovery Bonds are repaid, which is currently expected to occur in the first quarter of Fiscal Year 2016. See the caption “Proposed Budget for State Fiscal Year 2015-16.”

Additional information relating to sales tax receipts by the City is set forth under the caption “Taxable Transaction.”

## Other Taxes

Other taxes of \$11,363,771 collected by the City in Fiscal Year 2014, including but not limited to transient occupancy taxes, business licenses, franchise fees and property transfer taxes, provided approximately 21.0% of General Fund tax revenues and 14.0% of total General Fund revenues during Fiscal Year 2014.

## Services

Fees of \$7,500,560 collected for services provided by the City in Fiscal Year 2014, including but not limited to fees for plan checks and other planning services, issuance of building permits, police services, paramedic services, public works projects and parks and recreation programs, provided approximately 9.3% of General Fund revenues during Fiscal Year 2012.

## State of California Motor Vehicle In-Lieu Payments

The State imposes a Vehicle License Fee (the “VLF”), which is the portion of the fees paid in lieu of personal property taxes on a vehicle. The VLF is based on vehicle value and declines as the vehicle ages. Prior to the adoption of the State fiscal year 2004-05 budget, the VLF was 2% of the value of a vehicle. Through prior legislation, the State enacted VLF reductions under which the State was required to “backfill” local governments for their revenue losses resulting from the lowered fee. The State fiscal year 2004-05 budget permanently reduced the VLF from 2% to 0.65% of the value of a vehicle and deleted the requirement for backfill payments, providing instead that the amount of the backfill requirement will be met by an increase in the property tax allocation to cities and counties. See the caption “Proposed Budget for State Fiscal Year 2015-16.”

As set forth in the table below, for Fiscal Year 2014, the City received \$10,668,256 in total VLF revenues, all of which was distributed from property tax receipts.

### CITY OF ESCONDIDO State of California Motor Vehicle In-Lieu Payments

Source	Fiscal Year				
	2010	2011	2012	2013	2014
Motor Vehicle In-Lieu Payments	\$10,464,849	\$10,309,516	\$10,396,854	\$10,428,037	\$10,668,256

Source: City.

## Indebtedness

### *General Fund-Supported Debt.*

*2007 LRBs.* On February 14, 2007, the Escondido Joint Powers Financing Authority (the “Authority”) issued the 2007A Lease Revenue Refunding Bonds (1995 Refunding) and 2007B Lease Revenue Refunding Bonds (Taxable) (1995 Refunding) (collectively, the “2007 LRBs”) to refinance the costs of constructing and acquiring the California Center for the Arts performing arts center adjacent to the City Civic Center and appurtenant improvements. The 2007 LRBs mature on September 1 of each year through 2018 in remaining amounts ranging from \$6,085,000 to \$7,070,000 and bear interest at rates varying from 5.00% to 5.53% per annum. The 2007 LRBs are secured by lease payments (the “Lease Payments”) payable by the City pursuant to a lease/purchase agreement with the Authority. As of June 30, 2014, the 2007 LRBs were outstanding in the aggregate principal amount of \$32,070,000.

The City has covenanted in the lease/purchase agreement to budget and appropriate moneys annually for the Lease Payments from legally available funds, including the General Fund. However, concurrently with the issuance of the 2007 LRBs, the City and the Community Development Commission of the City of Escondido (the City's former redevelopment agency) (the "Commission") entered into a First Amendment to Amended and Restated Reimbursement Agreement, dated as of January 1, 2007 (the "Reimbursement Agreement"), pursuant to which the Commission agreed to apply certain tax increment revenues from the Escondido Redevelopment Project Area to the payment of the Lease Payments on substantially the same terms that the Commission had agreed to in connection with certain obligations that were refinanced by the 2007 LRBs.

See the caption "Redevelopment Dissolution" for information with respect to the impact of certain legislation on the Commission's repayment obligations under the Reimbursement Agreement.

The Palomar Community College District ("Palomar") was one of several taxing entities that executed tax sharing agreements with the predecessor to the Commission when the Escondido Redevelopment Project Area was first created in 1984. In late January 2013, Palomar filed a lawsuit against the City and the Successor Agency (as such term is defined under the caption "Redevelopment Dissolution") alleging that the Commission did not properly share tax increment revenues with Palomar pursuant to Palomar's tax sharing agreement since 1984. In May 2013, the Successor Agency filed a crossclaim against Palomar, seeking reimbursement of \$4.48 million. Such amount represents the proceeds of bonds (the "Palomar Bonds") issued by the Commission and used by Palomar to finance the construction of a parking lot at a Palomar campus in the City. After a mediation in November 2013, the City, the Successor Agency and Palomar reached an agreement that provided for the dismissal of Palomar's lawsuit against the City and the Successor Agency and the repayment of the Palomar Bonds primarily by Palomar. The City and the Successor Agency also agreed to forgive \$1,000,000 of Palomar's obligations under the Palomar Bonds. Palomar will make annual payments to the Successor Agency through February 1, 2019 to repay the balance of its obligations under the Palomar Bonds.

*2013 Lease Revenue Bonds.* On March 28, 2013, the Authority issued the Lease Revenue Refunding Bonds, Series 2013A (the "2013 LRBs") to refinance the costs of acquisition and construction of a golf course and related flood control, drainage, water well and ancillary facilities. The 2013 LRBs mature on October 1 of each year through 2030 in amounts ranging from \$215,000 to \$355,000 and bear interest at rates varying from 2.00% to 4.00% per annum. The 2013 LRBs are secured by lease payments payable by the City pursuant to a lease agreement with the Authority. As of June 30, 2014, the 2013 LRBs were outstanding in the aggregate principal amount of \$4,625,000.

*CEC Loan.* In 2004, the City entered into a loan agreement with the California Energy Commission (the "CEC Loan") to finance various energy conservation projects. Payments under the CEC Loan are payable in the annual amount of \$106,924 from several City funds, including the General Fund. The CEC Loan matures in 2022 and bears interest at the rate of 3.95% per annum. As of June 30, 2014, the CEC Loan was outstanding in the aggregate principal amount of \$727,227.

*SDGE Loan.* In 2011, the City entered into several loan agreements with San Diego Gas and Electric Company (collectively, the "SDGE Loan") to fund various energy conservation projects. Payments under the SDGE Loan are payable from several City funds, including the General Fund. The SDGE Loan matures in 2022 and does not bear interest. As of June 30, 2014, the SDGE Loan was outstanding in the aggregate principal amount of \$161,139.

*Equipment Lease.* In December 2014, the City took possession of a customized Sutphen Ladder truck designed for firefighting, which is financed through an equipment lease (the "Equipment Lease"). Payments under the Equipment Lease are payable in the annual amount of \$190,374. Payments are recorded in the Internal Service Vehicle and Equipment Maintenance Fund, which is funded by several funds, including the General Fund. The Equipment Lease matures in 2020 (after which time the City will take ownership of the

truck) and bears interest at 2.88% per annum. The current outstanding principal obligation under the lease is \$1,046,067.

**Other Long Term Debt.** As of June 30, 2014, the City had a total of approximately \$61,999,463 aggregate principal amount of obligations payable from revenues of the City's water system, including: (a) installment payments securing the Authority's Revenue Bonds (Water System Financing), Series 2012; (b) installment payments securing the City's Revenue Certificates of Participation, Series 2007; (c) a loan contract entered into with the State Department of Water Resources in 2002; and (d) a loan contract entered into with the State Department of Public Health in 2009.

As of June 30, 2014, the City had a total of approximately \$71,524,237 aggregate principal amount of obligations payable from revenues of the City's wastewater system, including: (a) installment payments securing the Authority's Revenue Bonds (Wastewater System Financing), Series 2012; (b) installment payments securing the City's Revenue Certificates of Participation (2004 Wastewater Capital Projects) Series 2004A and Series 2004B (Taxable) (collectively, the "2004 COPs"); (c) a loan contract entered into with the State Water Resources Control Board (the "SWRCB") in connection with Phase I of the Hale Avenue Resource Recovery Facility (the "HARRF"); (d) a loan contract entered into with the SWRCB in connection with a Water Reclamation Project; (e) a loan contract entered into with the SWRCB in connection with a Tertiary Treatment Facility at the HARRF; and (f) a loan contract entered into with the SWRCB to finance the acquisition of an automated aeration blower at the HARRF.

The City has authorized the issuance of the Refunding Revenue Bonds (Wastewater System) Series 2015A and Series 2015B (Taxable) (the "2015 Bonds") in the aggregate principal amount of approximately \$19,705,000 to refund all obligations with respect to the 2004 COPs. The 2015 Bonds, if issued on or about May 14, 2015 as currently anticipated, will be payable from revenues of the City's wastewater system. There can be no assurance that the 2015 Bonds will be issued on May 14, 2015, or at all.

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

**Estimated Direct and Overlapping Bonded Debt.** The estimated direct and overlapping bonded debt of the City as of March 1, 2015 is set forth in the Official Statement under the caption "PROPERTY TAXATION—Direct and Overlapping Debt."

### **City Investment Policy**

The City invests its funds in accordance with the City's Investment Policy, most recently amended in June 2014. In accordance with Section 53600 *et seq.* of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City's Investment Policy sets forth the policies and procedures applicable to the investment of City funds and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and market risks. Eligible investments are generally limited to the Local Agency Investment Fund which is operated by the California State Treasurer, the San Diego County Investment Pool for local agencies, U.S. Treasury Bills, Notes and Bonds, obligations issued by United States Government agencies, FDIC-insured or negotiable certificates of deposit, repurchase agreements, banker's acceptances and commercial paper rated A1/P1, as applicable, or better, and money market funds rated in the highest category by Moody's Investor's Service, Inc. ("Moody's") or Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") or administered by a domestic bank with long-term debt rated in one of the top two categories of Moody's and S&P. Funds are invested in the following order of priority:

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

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

A summary of the City's investments as of June 30, 2014 is set forth in the below table. As shown below, approximately 71% of the moneys invested and held by the City (or approximately 51% of total City moneys invested, including moneys held by fiscal agents) are invested in federal treasury and agency securities. Approximately \$17.3 (9.1%) of the total investment portfolio as of June 30, 2014 was attributed to the General Fund.

**CITY OF ESCONDIDO**  
**Summary of Investments as of June 30, 2014**

	TOTAL	18 months or less	18-42 months	42-60 months
U.S. Treasury Notes	\$ 3,518,800	\$ 3,518,800	\$	\$
Federal Agency Securities	87,509,416	27,315,890	44,816,469	15,377,057
Money Market Funds	10,925,784	10,925,784		
Negotiable Certificates of Deposit	2,980,479	1,242,212	988,850	749,417
State Investment Pool (LAIF)	24,262,374	24,262,374		
Subtotal	129,196,853	67,265,060	45,805,319	16,126,474
Held by fiscal agent				
Federal Agency Securities	5,403,585	5,403,585		
Money Market Funds	9,984,231	9,984,231		
State Investment Pool (LAIF)	45,013,444	45,013,444		
Subtotal	60,401,260	60,401,260		
Total	\$ 189,598,113	\$ 127,666,320	\$ 45,805,319	\$ 16,126,474

See Note 3 in Appendix B for further information with respect to City investments.

**State Budget**

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

**Proposed Budget for State Fiscal Year 2015-16**

In recent years, when there have been anticipated State budget shortfalls, the State Governor has proposed, and the State Legislature has approved, the shift of property tax revenues from cities, counties and special districts to schools. See the Official Statement under the caption "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS—Proposition 1A."



On January 9, 2015, the State Governor released his proposed budget for State fiscal year 2015-16 (the “Proposed Budget”). Although the Governor’s Budget Summary for the Proposed Budget (the “2015-16 Proposed Budget Summary”) proposes a balanced budget, the 2015-16 Proposed Budget Summary cautions that, since 2000, the State’s short periods of balanced budgets have been followed by massive budget shortfalls. The following information is taken from the LAO’s overview of the Proposed Budget, dated January 13, 2015.

The Proposed Budget assumes, for State fiscal year 2014-15, total general fund revenues and transfers of approximately \$108 billion and authorizes total expenditures of approximately \$111.7 billion. The State is projected to end the 2014-15 fiscal year with a general fund surplus of approximately \$2.1 billion, composed of a balance of approximately \$452 million in the State’s traditional budget reserve and balance of approximately \$1.6 billion in the Budget Stabilization Account (the “BSA”), the State basic reserve fund. For State fiscal year 2015-16, the Proposed Budget assumes total general fund revenues of approximately \$113.4 billion and authorizes expenditures of approximately \$113.3 billion. The State is projected to end State fiscal year 2015-16 fiscal year with general fund surplus of approximately \$3.4 billion, composed of a balance of approximately \$534 million in the budget reserve and an approximately \$2.8 billion in the BSA. The balance in the BSA includes a deposit of approximately \$1.2 billion mandated by the provisions of the State Constitution. However, the 2015-16 Proposed Budget Summary also notes that commitments made by the State in the past two years are already straining the State’s finances. Under a projection of current policies, the 2015-16 Proposed Budget Summary anticipates that the State would begin to spend more than it receives in annual revenues by State fiscal year 2018-19, by an amount of approximately \$1 billion. The City cannot predict whether the State will take steps, in response to a future budget shortfall, which would reduce the amount of tax revenue available to the City.

As a result of projected increases to State general fund revenues, as well as certain revisions to student attendance, the Proposed Budget includes revised estimates of the minimum funding guarantees for schools for State fiscal years 2013-14 and 2014-15. The Proposed Budget revises the State fiscal year 2013-14 minimum funding guarantee upward to approximately \$58.7 billion (an increase of approximately \$371 million from the estimate included in the State fiscal year 2014-15 budget) and revises the State fiscal year 2014-15 minimum funding guarantee upward to approximately \$63.2 billion (approximately \$2.3 billion higher than that included in the State fiscal year 2014-15 budget).

For State fiscal year 2015-16, the Proposed Budget sets the minimum funding guarantee at approximately \$65.7 billion, including approximately \$47 billion from the State general fund, and reflects an increase of approximately \$2.6 billion (or 4%) from the revised level for State fiscal year 2014-15. Despite the increase in the minimum guarantee, the State general fund share is only approximately \$371 million. A projected growth in available local property tax collections accounts for the balance, and results primarily from the Governor’s assumption that the “Triple Flip” legislation, which diverts local property tax revenues from school districts and community colleges to local governments, will sunset. See the caption “Sales Taxes.”

Significant proposals or adjustments set forth in the Proposed Budget affecting public agencies in the State include the following:

- Law Enforcement. The Proposed Budget proposes to continue a \$40 million general fund allocation to “front line” law enforcement activities. The Board of State and Community Corrections allocates funds to individual cities acting as the fiduciary agent within each county receiving the funds.
- Transportation. The Proposed Budget includes total funding of approximately \$15.8 billion (approximately \$84 million from the general fund and \$15.7 billion from other funds) for all programs administered within the State Transportation Agency. In addition, the shared revenues budget allocates over \$1.4 billion in fuel excise tax to cities and counties for local streets and roads.

- Elimination of Redevelopment Agencies. The Proposed 2014-15 Budget anticipates that in State fiscal years 2014-15 and 2015-16 combined, cities will receive approximately \$580 million, approximately \$660 million, and special districts approximately \$200 million.
- Property Taxes. The Proposed Budget anticipates ongoing property tax revenues of more than \$900 million annually to be distributed to cities, counties, and special districts that can be used by local governments to fund police, fire, and other critical public services.
- State Mandate Reimbursements. The Proposed Budget continues the suspension of most mandates not related to law enforcement or property taxes. After satisfying the State Constitutional funding guarantee, additional revenues of up to \$800 million are proposed to pay down the remainder of the State's pre-2004 mandate debt. The Proposed Budget estimates that a trigger mechanism will result in a \$533 million payment toward this mandate debt. These funds will provide counties, cities, and special districts with general purpose revenue.
- Deferred Maintenance. The Proposed Budget includes approximately \$478 million (approximately \$125 million from the general fund) for critical deferred maintenance at universities, community colleges and in State parks, prisons, State hospitals and other State facilities.
- Education. The Proposed Budget provides over \$1.2 billion in funding to support a coordinated framework for adult education, career technical education, workforce investment, and apprenticeships intended to provide training and education to workers in California.

The State Governor is expected to release a revision to the Proposed Budget in or about mid-May 2015. No assurance can be provided as to the timing or the content of such revised Proposed Budget.

### **Potential Impact of State Financial Condition on the City**

The State has experienced significant financial stress in recent years, with budget shortfalls in the several billions of dollars. There can be no assurance that, as a result of such State financial stress, the State will not significantly reduce revenues to local governments (including the City) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. Although the State is not a significant source of City revenues, no prediction can be made by the City as to what measures the State will adopt to respond to the current or potential future financial difficulties. There can be no assurance that State actions to respond to State financial difficulties will not adversely affect the financial condition of the City.

### **Redevelopment Dissolution**

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

On June 27, 2012, the Governor signed Assembly Bill 1484 (“AB 1484”), which made certain amendments to AB 1x26. Under AB 1484, the County Auditor-Controller, the DOF and the State Controller may require the return of funds improperly spent or transferred to a public entity in conflict with the provisions of the Community Redevelopment Law, as amended by AB 1x26 and AB 1484, and if such funds are not returned within 60 days, they may be recovered through an offset of sales and use tax or property tax allocations to the local agency, which, in the case of the Successor Agency, is the City.

**Impact on the City.** Significant provisions of AB 1x26 and AB 1484 and implementing actions of affected parties, including the Successor Agency, the oversight board, the County and the DOF, may be subject to legal challenge, statutory or administrative changes and other clarifications which could affect the impact of the dissolution of redevelopment on the City and its General Fund. The full extent of the impact of the implementation of AB 1x26 and AB 1484 on the City’s General Fund is unknown at this time. While certain administrative costs previously charged to the Commission by the General Fund will no longer be supported by the Successor Agency, certain property tax revenues formerly allocated to the Commission will now be received by the City’s General Fund. There can be no assurance that the City and the Successor Agency will not enter into loan agreements in the future to enable the Successor Agency to meet its payment obligations in future years.

Except as noted below under the captions “—2007 LRBs” and “—Repayment of Moneys to Successor Agency,” the City does not believe that it has received material amounts from the Commission or the Successor Agency which may be asserted to be in violation of AB 1x26 or AB 1484.

**2007 LRBs.** Although AB 1x26 generally invalidates agreements between host cities and their former redevelopment agencies, provision is made for the enforcement of agreements entered into with respect to bond obligations which meet certain specified criteria. The City believes that the Successor Agency’s payment obligation under the Reimbursement Agreement relating to the 2007 LRBs (as described under the caption “Indebtedness—General Fund-Supported Debt—2007 LRBs”) is an enforceable obligation and the City expects that the Successor Agency will continue to be able to apply tax increment revenues to the payment of the Lease Payments securing the 2007 LRBs. The City has listed the Reimbursement Agreement in its Recognized Obligation Payment Schedule (the “ROPS”), which is required to be submitted to the oversight board and the DOF in accordance with AB 1x26. To date, none of the oversight board, the DOF, the State Controller or other State or County bodies implementing the dissolution of redevelopment have disputed the City’s listing of the Reimbursement Agreement as an enforceable obligation on the ROPS. However, there can be no assurance that such entities or a court will not disagree with the City’s interpretation and seek to prohibit the Successor Agency from making the Lease Payments in the future.

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

**Repayment of Moneys to Successor Agency.** From time to time since the inception of the Commission in 1984, the City loaned General Fund moneys to the Commission for redevelopment purposes (collectively, the “Redevelopment Loan”) outstanding as of June 30, 2014 in the approximate aggregate amount of \$38,353,940 (including accrued interest). On February 16, 2011, before the adoption of AB 1x26, the Commission adopted a resolution authorizing a partial payment on the Redevelopment Loan in the amount of \$20,000,000 (the “2/16/11 Payment”), including approximately \$15,100,000 in interest. The City’s receipt of such amount is reflected in the tables under the captions “Budgetary Process” and “Change in Fund Balance of the City General Fund.” The City purchased two properties with a \$6,740,744.82 portion of the repaid amount and retained \$13,259,255.18 in cash.

On April 20, 2012, the State Controller sent a letter to the City and the Successor Agency ordering the reversal of all payments received by cities from redevelopment agencies after January 1, 2011. By its terms, the letter applied to the 2/16/11 Payment on the Redevelopment Loan. The Successor Agency's listing of the Redevelopment Loan on previous ROPS had been rejected by the DOF. The City is presently engaged in litigation with the DOF to challenge the DOF's determination that the Redevelopment Loan is not an enforceable obligation. The City cannot predict the outcome of such challenge or the timing of the resolution thereof.

On July 9, 2012, pursuant to AB 1484 (discussed above under the caption "—General"), the County Auditor-Controller sent a letter to the City demanding payment of \$10,145,052.16, representing moneys previously overpaid to the Successor Agency between July 1, 2011 and January 30, 2012. On July 25, 2012, the City adopted a resolution returning the 2/16/11 Payment (including the cash amount of \$13,259,255.18 and the properties purchased) to the Successor Agency pursuant to AB 1484. From the returned cash, the Successor Agency paid the \$10,145,052.16 amount demanded by the County Auditor-Controller pursuant to AB 1484. The remaining \$3,114,203.02 in cash from the returned 2/16/11 Payment was retained by the Successor Agency as cash on hand.

On May 4, 2013, the DOF issued a final determination letter to the effect that the Successor Agency was not authorized to accept the properties that the City purchased with the \$6,740,744.82 portion of the 2/6/11 Payment (as discussed above) in lieu of the cash that was originally transferred from the Successor Agency to the City. In addition, the DOF asserted that the Successor Agency would have had moneys available for distribution to other taxing entities in the amount of approximately \$3.7 million had the City returned cash in the amount of \$6,740,744.82 rather than properties purchased with such funds on July 25, 2012.

In response to such letter, in May 2013, the City transferred cash in the amount \$6,740,744.82 to the Successor Agency and the Successor Agency restored title in the properties to the City. In addition, the Successor Agency transferred \$3.7 million to the County pursuant to the DOF's May 4, 2013 letter.

The Fiscal Year 2015 General Fund operating budget set forth in under the caption "Budgetary Process" shows revenues and expenditures from City operations only; the City's return of money and transfer of property to the Successor Agency on July 25, 2012 and the City's return of money to the Successor Agency in May 2013 is not reflected in such budgeted operating revenues or expenditures. The return of money and transfer of property to the Successor Agency in Fiscal Year 2013 is reflected in the tables under the captions "Change in Fund Balance of the City General Fund" and "General Fund Balance Sheets of the City." The net effect of such transfers was to decrease the Fiscal Year 2012 General Fund ending balance by approximately \$8,347,410 (reflecting an increase related to the property transfer, a decrease related to the return of money and an increase in deferred revenues related to the outstanding amount of the Redevelopment Loan).

Pending resolution of the City's litigation with the DOF (discussed above), the City treated the amount due under the Redevelopment Loan as an extraordinary loss in Fiscal Year 2013. The City has not reflected the amount due under the Redevelopment Loan in its audited financial statements since Fiscal Year 2012.

There can be no assurances that AB 1x26, AB 1484 and/or subsequent implementing statutes will not interfere with the receipt by the City from the Successor Agency of the amounts contemplated to be received by the City pursuant to the Reimbursement Agreement or the Redevelopment Loan or otherwise.

To the extent that the Successor Agency's assets are liquidated for distribution to the affected taxing entities, the City's General Fund will receive approximately 15.68% of such assets.

## **Future State Budgets**

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

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## Industry and Employment

The below table summarizes the civilian labor force, civilian employment and civilian unemployment figures over the period from 2010 through 2014 in the City, the County, the State and the United States.

### CITY OF ESCONDIDO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA AND UNITED STATES

#### Labor Force, Employment and Unemployment Yearly Average

<i>Year and Area</i>	<i>Civilian Labor Force</i>	<i>Civilian Employment<sup>(1)</sup></i>	<i>Civilian Unemployment<sup>(2)</sup></i>	<i>Civilian Unemployment Rate<sup>(3)</sup></i>
2010				
Escondido	73,500	65,400	8,100	11.0%
San Diego County	1,574,100	1,408,200	165,900	10.6
California	18,336,300	16,068,400	2,267,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2011				
Escondido	73,800	66,100	7,700	10.4
San Diego County	1,582,200	1,423,500	158,700	10.0
California	18,417,900	16,249,600	2,168,300	11.8
United States	153,617,000	139,869,000	13,747,000	8.9
2012				
Escondido	74,600	67,600	6,900	9.3
San Diego County	1,599,200	1,456,300	142,800	8.9
California	18,519,000	16,589,700	1,929,300	10.4
United States	154,975,000	142,469,000	12,506,000	8.1
2013				
Escondido	74,100	68,300	5,800	7.9
San Diego County	1,590,000	1,470,000	120,000	7.5
California	18,596,800	16,933,300	1,663,500	8.9
United States	155,389,000	143,929,000	2,130,000	7.4
2014				
Escondido	69,100	64,600	4,400	6.4
San Diego County	1,544,600	1,445,400	99,200	6.4
California	18,811,400	17,397,100	1,414,300	7.5
United States	155,922,000	146,305,000	9,617,000	6.2

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

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

Source: California Employment Development Department, March 2014 Benchmark; U.S. Department of Labor, Bureau of Labor Statistics.

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The table below sets forth the industry employment and the labor force estimates for the years 2010 through 2014 for the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (“MSA”). Annual industry employment information is not compiled by sector for the City.

**SAN DIEGO-CARLSBAD-SAN MARCOS MSA**  
**Industry Employment and Labor Force**  
**Annual Average**

<i>Type of Employment</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Total Farm	10,500	9,800	9,800	9,800	10,000
Total Nonfarm	1,237,100	1,247,000	1,280,500	1,317,800	1,348,000
Total Private	1,006,600	1,018,000	1,052,700	1,088,300	1,116,100
Goods Producing	148,900	149,000	151,900	156,600	160,300
Natural Resources & Mining	400	400	400	400	400
Construction	55,400	55,200	57,000	60,900	63,500
Manufacturing	93,100	93,400	94,500	95,200	96,400
Durable Goods	71,200	71,100	71,400	71,100	71,400
Nondurable Goods	21,900	22,200	23,100	24,100	24,900
Service Providing	1,088,200	1,098,000	1,128,600	1,161,200	1,187,700
Private Service Producing	857,700	869,100	900,800	931,800	955,800
Trade, Transportation & Utilities	197,400	201,000	208,000	212,400	214,800
Wholesale Trade	40,200	41,500	43,500	43,900	43,900
Retail Trade	130,700	133,400	137,200	141,300	144,200
Transportation, Warehousing & Utilities	26,500	26,100	27,300	27,200	26,800
Information	25,100	24,200	24,500	24,300	24,600
Financial Activities	67,200	67,600	70,200	71,400	70,500
Professional & Business Services	207,900	210,200	216,700	224,700	230,000
Educational & Health Services	159,600	162,800	170,500	181,100	186,900
Leisure & Hospitality	154,500	155,600	161,700	168,600	176,800
Other Services	46,100	47,700	49,200	49,300	52,300
Government	<u>230,500</u>	<u>229,000</u>	<u>227,800</u>	<u>229,500</u>	<u>231,900</u>
<b>Total All Industries</b>	<b><i>1,247,600</i></b>	<b><i>1,256,800</i></b>	<b><i>1,290,300</i></b>	<b><i>1,327,600</i></b>	<b><i>1,358,000</i></b>

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

Source: State of California, Employment Development Department, Labor Market Information Division, San Diego-Carlsbad-San Marcos MSA *Industry Employment & Labor Force - by Annual Average, March 2014 Benchmark.*

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The table below sets forth the largest employers in the City as of June 30, 2014.

**CITY OF ESCONDIDO  
Largest Employers**

<i>Employer</i>	<i>Number of Employees</i>
Palomar Medical Center	3,290
Escondido Union School District	1,804
Welk Group Inc.	1,200
San Diego Safari Park	1,100
City of Escondido <sup>(1)</sup>	1,082
Escondido Union High School District	861
Vons Grocery Stores	360
Home Depot <sup>(2)</sup>	350
Nordstrom Inc.	290
Palomar Community College District	211

<sup>(1)</sup> Full-time employees.

<sup>(2)</sup> There are two Home Depot stores in the City. The above number reflects the number of employees in 2014 for one store and the number of employees in 2013 for the other store.

Source: City of Escondido Finance Department.

**Education**

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

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

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

**Culture and Recreation**

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

Spectator sports fans can choose among professional football at nearby Qualcomm Stadium, professional baseball at nearby Petco Park, professional indoor soccer and thoroughbred horse racing at Del Mar Racetrack. The City's recreation department offers amateur athletes softball, football, tennis and other organized sporting activities at 12 parks and 6 playgrounds and also operates two lakes that are open to the public for recreational purposes.

Concerts, plays, and museums are popular in and around the City. The California Center for the Arts, Escondido, an \$81.0 million cultural center complex including a performing arts theater, a community theater, a museum and a conference center, opened in October 1994. The Patio Playhouse and the Lawrence Welk



Theatre also offer dramatic productions. The San Diego Arts Gallery and the La Jolla Museum of Art are two of the many art galleries in the area and the Mingei International Museum offers various art exhibitions.

**Transportation**

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

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

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

**Taxable Transactions**

Trade outlet and retail sales activity are summarized in the below tables based on reports of the State Board of Equalization.

**CITY OF ESCONDIDO  
Total Taxable Transactions and Number of Sales Permits  
2008 through 2013<sup>(1)</sup>**

<i>Calendar Year</i>	<i>Retail Sales<sup>(2)</sup></i>	<i>Retail Sales Permits</i>	<i>Total Taxable Transactions<sup>(2)</sup></i>	<i>Issued Sales Permits</i>
2009	\$1,611,325	2,312	\$2,040,596	3,576
2010	1,728,265	2,414	2,132,167	3,706
2011	1,940,690	2,549	2,403,036	3,830
2012	2,170,967	2,621	2,649,357	3,888
2013	2,257,769	2,618	2,762,499	3,849

<sup>(1)</sup> Reflects latest information available.

<sup>(2)</sup> Dollar amounts are in thousands.

Source: California State Board of Equalization.

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**CITY OF ESCONDIDO**  
**Taxable Retail Sales**  
**2009 through 2013<sup>(1)(2)</sup>**

<i>Type of Business</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>
Motor Vehicle & Parts Dealers	\$ 481,614	\$ 529,178	\$ 643,515	\$ 825,386	\$ 876,343
Home Furnishings & Appliance Stores	30,602	33,286	45,975	48,489	47,669
Building Materials & Garden Equipment & Supplies	157,370	167,646	168,705	178,926	191,660
Food & Beverage Stores	120,048	120,970	126,382	126,104	128,277
Gasoline Stations	218,496	254,285	306,278	318,773	300,622
Clothing & Clothing Accessories Stores	160,564	170,763	183,669	187,747	178,954
General Merchandise Stores	133,896	134,120	136,050	140,874	164,974
Food Services & Drinking Places	162,468	169,879	179,404	192,772	203,456
Other Retail Group	<u>146,267</u>	<u>148,138</u>	<u>150,710</u>	<u>151,896</u>	<u>165,812</u>
Retail Stores Totals	1,611,325	1,728,265	1,940,690	2,170,967	2,257,769
All Other Outlets	<u>429,271</u>	<u>403,902</u>	<u>462,346</u>	<u>478,390</u>	<u>504,730</u>
Total All Outlets	<u>\$ 2,040,596</u>	<u>\$ 2,132,167</u>	<u>\$ 2,403,036</u>	<u>\$ 2,649,357</u>	<u>\$ 2,762,499</u>

<sup>(1)</sup> Reflects latest information available.

<sup>(2)</sup> Dollar amounts are in thousands.

Source: California State Board of Equalization.

See the caption "Sales Taxes" for further information with respect to the City's sales tax revenues.

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## Building Permit Activity

The below table summarizes building activity in the City from 2009 through 2013, reflecting the latest available information.

### CITY OF ESCONDIDO Building Permit Valuations 2009 through 2013

	2009	2010	2011	2012	2013
<b>Residential</b>					
Single Family	\$31,276,919	\$ 21,709,519	\$ 8,852,193	\$ 1,081,371	\$ 7,080,327
Multi-Family	4,625,512	5,166,958	12,919,403	2,549,914	1,296,850
Alteration/Additions	<u>3,743,437</u>	<u>3,032,618</u>	<u>3,585,270</u>	<u>4,339,290</u>	<u>2,861,611</u>
Total	\$39,645,868	\$29,909,095	\$25,356,866	\$7,970,575	\$11,238,788
<b>Non-Residential</b>					
New Commercial	\$ 1,124,405	\$ 3,480,411	\$ 2,303,428	\$ 306,208	\$6,156,693
New Industry	535,136	1,362,179	0	2,742,479	0
Other <sup>(1)</sup>	3,176,047	1,914,091	2,279,369	1,471,458	1,552,352
Alteration/Additions	<u>9,991,810</u>	<u>15,334,778</u>	<u>8,984,967</u>	<u>15,613,473</u>	<u>15,469,629</u>
Total	\$14,827,398	\$22,091,459	\$13,567,764	\$20,133,618	\$23,178,674
<b>Total All Industry</b>	<u><u>\$54,473,266</u></u>	<u><u>\$52,000,554</u></u>	<u><u>\$38,924,630</u></u>	<u><u>\$28,104,193</u></u>	<u><u>\$34,417,462</u></u>
<b>Total</b>					
Single Family Units	114	84	32	6	57
Multi-Family Units	<u>63</u>	<u>55</u>	<u>112</u>	<u>36</u>	<u>11</u>
Total	177	139	144	42	68

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

Source: California Homebuilding Foundation/Construction Industry Research Board.

## Utilities

San Diego Gas and Electric provides gas and electricity service within the City. Verizon California supplies local telephone service. Over 100 telecommunications companies provide long-distance and wireless service. The City provides water and wastewater service, as discussed above under the caption "City Enterprise Operations."

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**APPENDIX B**

**CITY OF ESCONDIDO AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

# City of Escondido

CALIFORNIA

## MAPLE STREET PLAZA



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014



CITY OF ESCONDIDO • CALIFORNIA

# Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014

**MAYOR**  
Sam Abed

**CITY COUNCIL**  
Olga Diaz, Deputy Mayor  
Ed Gallo  
Michael Morasco  
John Masson

**CITY MANAGER**  
Clay Phillips

**ASSISTANT CITY MANAGER**  
Charles Grimm

CHIEF OF POLICE

Craig Carter

CITY ATTORNEY

Jeffrey Epp

CITY CLERK

Diane Halverson

CITY TREASURER

Kenneth Hugins

DIRECTOR OF ADMINISTRATIVE SERVICES

Sheryl Bennett

DIRECTOR OF COMMUNITY DEVELOPMENT

Barbara Redlitz

DIRECTOR OF INFORMATION SYSTEMS

Mark Becker

DIRECTOR OF LIBRARY AND COMMUNITY SERVICES

Loretta McKinney

DIRECTOR OF PUBLIC WORKS

Ed Domingue

DIRECTOR OF UTILITIES

Christopher McKinney

FIRE CHIEF

Michael Lowry

Prepared by the Finance Department





**CITY OF ESCONDIDO**  
**Comprehensive Annual Financial Report**  
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**June 30, 2014**

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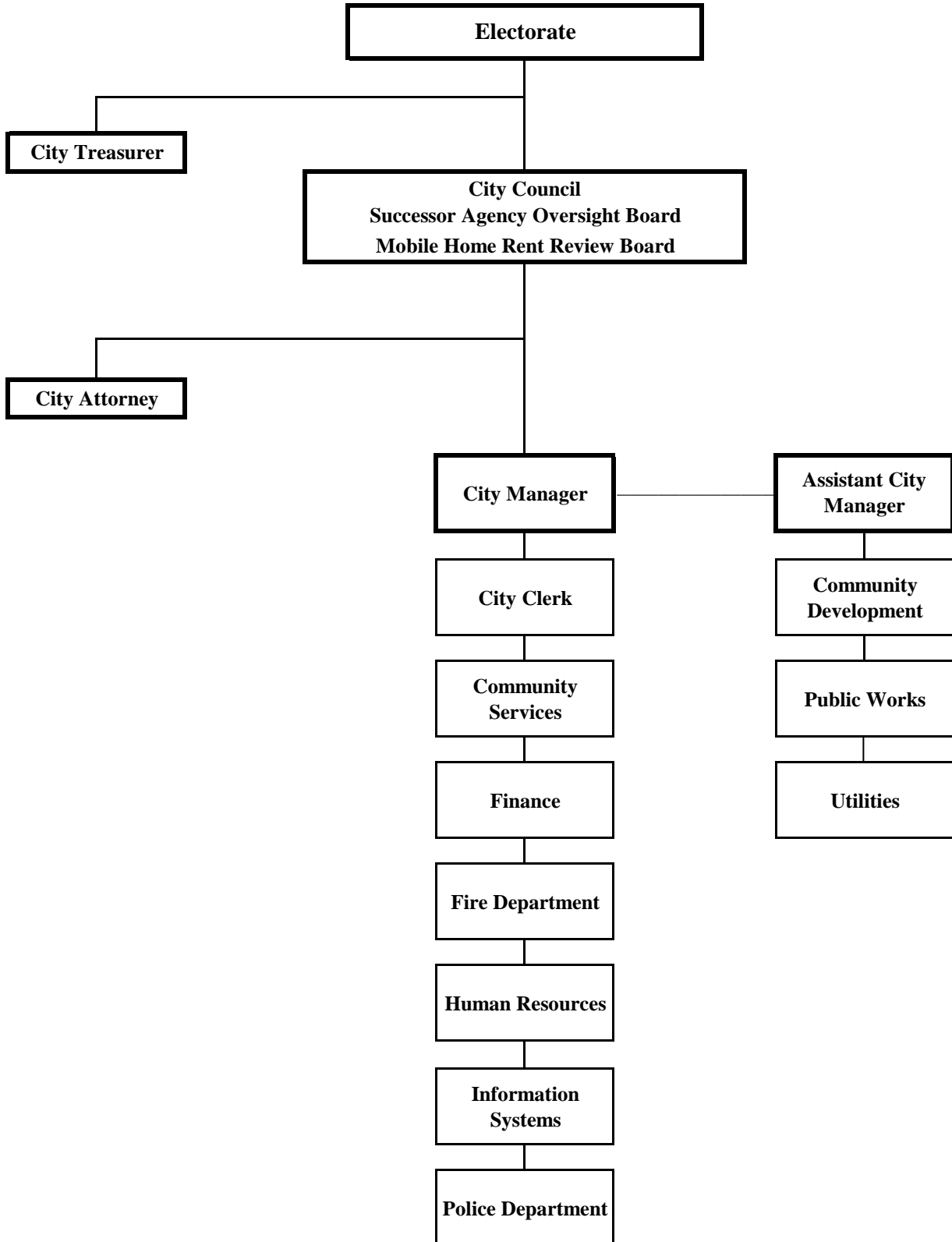
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**CITY OF ESCONDIDO**  
**Comprehensive Annual Financial Report**  
**Organization Chart**  
**June 30, 2014**

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December 30, 2014

Honorable Mayor, City Council, and Citizens of the City of Escondido:

It is our pleasure to present the Comprehensive Annual Financial Report (CAFR) of the City of Escondido for the fiscal year ended June 30, 2014.

This report consists of management's representations concerning the finances of the City of Escondido. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Escondido has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Escondido's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Escondido's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Escondido's financial statements have been audited by Lance, Soll & Lunghard, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Escondido for the fiscal year ended June 30, 2014, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Escondido's financial statements for the fiscal year ended June 30, 2014, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

In addition, Lance, Soll & Lunghard, LLP audited the City's major program expenditures of federal funds for compliance with the Federal Single Audit Act Amendments of 1996, the Office of Management and Budget Circular A-133 regulating Single Audits, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The report of the Single Audit is published separately from this CAFR and may be obtained upon request from the City's Finance Department.

Management has provided a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Escondido's MD&A can be found immediately following the Independent Auditors' Report.

This report is organized into three sections:

- The Introductory Section is intended to familiarize the reader with the organizational structure of the City, the nature and scope of City services, and specifics of the City's legal operating environment.
- The Financial Section includes Management's Discussion & Analysis, Basic Financial Statements, Notes to Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present financial information for each of the City's

**CITY OF ESCONDIDO**  
**Letter of Transmittal**  
**December 30, 2014**

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major funds, non-major governmental funds, as well as proprietary funds, internal service funds, and fiduciary funds. This section also contains the independent auditor's report on the Basic Financial Statements.

- o The Statistical Section presents up to ten years of detailed statistical data on the City's financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information as a context to the information presented in the financial statements and note disclosures.

**CITY OF ESCONDIDO PROFILE**

The City of Escondido is located in north San Diego County, approximately 30 miles north of the City of San Diego, California. Escondido is an established community incorporated on October 8, 1888 under the general laws of the State of California. The City's current population is 145,900. Within the 36 square miles that comprise the City, there are many residential communities; the largest enclosed regional mall in San Diego County; 2 regional hospitals; 17 hotels; an auto center; many office, industrial, and commercial centers; and civic, cultural, and recreational facilities.

The City operates under a Council-Manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a Mayor and a four member Council. The City Council is elected by districts on a staggered basis for a term of four years. The Mayor is directly elected at large for a four-year term. The City Treasurer is also elected to a four-year term. The City Council appoints the City Manager and the City Attorney. The operating departments include City Clerk, Community Development, Community Services, Finance, Fire, Human Resources, Information Systems, Police, Public Works, and Utilities.

The City provides the following services to its residents: police and fire protection, water and wastewater services, building safety regulation and inspection, circulation and public facility capital improvement construction, street and park maintenance, refuse collection, planning and zoning, a full range of recreational programs for citizen participation, a senior center, and a library.

The City is financially accountable for two legally separate entities that are included as an integral part of the City's financial statements. These component units include the Vehicle Parking District, established for the purpose of acquiring and improving parking lots in Escondido, and the Escondido Joint Powers Financing Authority, an entity created to issue debt to finance City projects.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City and to differentiate their financial position, results of operations and cash flows from those of the City. The California Center for the Arts, Escondido Foundation is a discretely presented component unit.

The City Manager is required to prepare and submit to the City Council an annual proposed budget. Budget hearings are held and a final budget is adopted before July 1, which is the start of the new fiscal year. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within a fund.

Financial administration of the City is the responsibility of the Director of Administrative Services. The Finance Department management staff includes an Assistant Finance Director, which supervises the City's day-to-day accounting and budget operations. The City Treasurer is responsible for investing the City's portfolio and bond administration.

**CITY OF ESCONDIDO**  
**Letter of Transmittal**  
**December 30, 2014**

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**ECONOMIC CONDITION**

**Local Economy.** The “Great Recession” starting at the end of 2008 has had a significant impact on City services. Quick and decisive action by the City Council and Management to cut costs has been a significant factor in reestablishing City services as quickly as possible. The goal was to cut expenses, but keep as many services as possible by being efficient and economical in providing basic service. The local economy received an economic boost from the opening of a Wal-Mart store and a separate Wal-Mart grocery store in fiscal year 2013-2014. The recently completed remodel of Westfield shopping mall and the possible additions of popular restaurants on the premises should also be of significant economic benefit to City revenues. As of September 2014, the unemployment rate in Escondido was 6.1%. The San Diego countywide unemployment rate was 5.9% with the State of California recording a 7.3% rate.

**Long-term Financial Planning.** The City adopted a balanced budget for fiscal year 2013-14 using a combination of cost reductions and revenue increases. For the fourth year in a row, the City Council adopted a budget that does not rely on reserves for fiscal year 2014-15. The two-year General Fund budget was adopted with the assumption that sales tax and property tax will continue to show growth.

The City Council Action Plan is developed biennially following a workshop where key policy interests are identified and discussed by the City Council and City Staff represents the City Council's collective vision for Escondido's future and the key activities that will be used to achieve that vision. In February 2013, the City Council held a workshop to identify and discuss key policy goals. During that meeting, each council member was able to elaborate on their ideas for city priorities. At the conclusion of the workshop, the City Council approved the following categories (in alphabetical order) for the fiscal year 2013-14 Council Action Plan: Economic Development, Fiscal Management, Neighborhood Improvement, and Public Safety.

**Financial Policies.** The elected City Treasurer has responsibility for the investment and management of excess available cash. The City utilizes a pooled investments approach in investing excess funds in accordance with the investment strategies and standards set forth in the Escondido Investment Policy. This policy is reviewed and approved by the City Council on an annual basis, and defines the prioritized objectives of investment selection as safety of principal and sufficiency of liquidity. Maximization of investment yield is sought in a manner consistent with the primary objectives of safety and liquidity. The City's investment strategy is to hold investments to maturity.

The City's investments include United States Treasury Notes, obligations issued by various United States Government Agencies, money market funds and investments in the Local Agency Investment fund (LAIF) established by the State Treasurer. The average yield on the general investment portfolio for the Fiscal Year 2013-14 was 1.08 percent, as compared to 1.27 percent for the Fiscal Year 2012-13. The yield on the portfolio will most likely continue to decline as older, higher yielding investments mature and are replaced with investments yielding the lower current market rates of return.

The Treasurer prepares quarterly investment reports that provide summary information on the status of the portfolio, including the par, book and market values of each security by investment type, detail of major portfolio transactions occurring during the period and investment yield information. The Quarterly investment reports are submitted to the City Manager and City Council.

The City has implemented a Fund Balance Policy, per Governmental Accounting Standards Board (GASB) Statement No. 54. This policy provides that the City Council may commit General Fund Balance for specific



**CITY OF ESCONDIDO**  
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**December 30, 2014**

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purposes by taking formal action and these committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same formal action to establish the commitment.

The City commits remaining fund balance in the General Fund at year end in order to mitigate future risks, provide for cash flow requirements and contingencies for unseen operating or capital needs. This committed General Fund balance is available to fund one-time unanticipated expenditure requirements, local disasters or when actual revenue received is less than the amount budgeted resulting in an operating deficit in the General Fund.

When restricted and unrestricted fund balance is available, the City spends restricted fund balance first. Also, the City reduces committed amounts first, followed by assigned amounts and then unassigned amounts when an expenditure is incurred for purposes in which amounts in any of these unrestricted classifications of fund balance could be used. The City's general fund currently has \$17 million in General Fund Reserves.

In August 2014 the Standard & Poor's Ratings Services upgraded several of Escondido's bond ratings. Standard & Poors raised its long-term rating and underlying rating to 'AA-' from 'A+' on Escondido's existing general obligation (GO) bonds. At the same time, Standard & Poor's raised the long-term ratings to 'A+' from 'A' on the Escondido Joint Powers Financing Authority's lease revenue bonds, and on the city's existing appropriation debt. The stable outlook for all bonds reflects Standard & Poor's opinion that Escondido's strong unreserved fund balances will likely provide a financial cushion should the city experience any revenue decrease to balance operations.

**AWARDS AND ACKNOWLEDGMENTS**

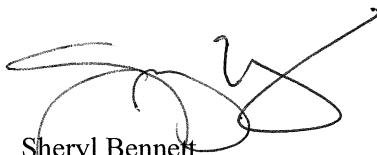
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Escondido for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.


Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

We would like to extend our appreciation to the Mayor, City Council, City Manager, and each City department for their cooperation and support in conducting the fiscal operations of the City.

Respectfully submitted,

  
Sheryl Bennett  
Director of Administrative Services

  
Joan Ryan  
Assistant Director of Finance





Government Finance Officers Association

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

Presented to

**City of Escondido  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

# **Financial Section**

## INDEPENDENT AUDITORS' REPORT

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Escondido, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Escondido, California, as of June 30, 2014, 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 the schedule of funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Lance, Solt & Luyhard, LLP*

Brea, California  
December 30, 2014

## CITY OF ESCONDIDO Management's Discussion and Analysis

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As management of the City of Escondido (City), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information furnished in our Letter of Transmittal, which can be found on pages 8-11 of this report.

### Financial Highlights

#### Government-wide Basis:

- At the close of the most recent fiscal year, the assets plus deferred outflows of the City exceeded its liabilities by \$532,995,953 (*net position*).
- The government's total net position increased by \$1,488,603. Governmental activities decreased by 1.6 percent using beginning of year net position, while business-type activities increased by 3.4 percent. The increase in net position is largely attributable to an increase in total charges for services for the business-type activities.
- The City's total long-term liabilities, including such items as bonds, loans payable, accrued self-insured claims, and employee leave benefits decreased by \$6,892,213, or 2.6 percent, during the fiscal year. The change reflects a \$1,640,874 decrease for governmental activities and a \$5,251,339 decrease for business-type activities. The decrease in long-term liabilities for governmental activities and business-type activities is due to routine principal and interest payments on outstanding obligations.

#### Fund Basis:

- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$102,745,602, a decrease of \$559,587 in comparison with the prior year.
- At the end of the current fiscal year, fund balance committed to Reserves in the General Fund was \$17,319,659 or 21.4 percent of General Fund expenditures.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. These financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information.

**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.

The *statement of net position* presents information on the City's assets, deferred outflow of resources, and liabilities plus deferred inflows of resources, 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 *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish governmental functions of the City, which are mainly supported by taxes and intergovernmental revenues, from the business-type functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the City



## CITY OF ESCONDIDO Management's Discussion and Analysis

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include general government, public safety, community services, public works, and community development. The business-type activities of the City include Water and Wastewater services.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate California Center for the Arts, Escondido Foundation. Financial information for the California Center for the Arts, Escondido Foundation for the fiscal year ending June 30, 2014 is being reported separately from the primary government, as it is known as a discretely presented component unit. The government-wide financial statements can be found on pages 34-37 of this report.

**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. All of the funds of the City of Escondido can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 20 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 General Fund and the Successor Agency Housing Special Revenue Fund which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds are provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 38-45 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds, the Enterprise and the Internal Service Funds. The *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The enterprise funds are used to account for its Water and Wastewater Funds. The *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Vehicle and Equipment Maintenance, General Liability, Workers' Compensation, Central Services, Insurance, Building Maintenance, and Office Automation Funds. Since these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide detailed information for the Water and Wastewater Funds, both of which are considered to be major funds. Conversely, all internal service funds are combined into a

**CITY OF ESCONDIDO**  
**Management's Discussion and Analysis**

single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of *combining statements* elsewhere in this report.

The proprietary fund financial statements can be found on pages 46-51 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs.

The fiduciary fund financial statements can be found on pages 52-53 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 54-96 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 98-104 of this report. The combining statements referred to earlier, in connection with nonmajor governmental funds and internal service funds can be found on pages 110-137 of this report.

**City of Escondido's Statement of Net Position**

(Amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Assets and deferred outflows of resources:						
Current and other assets	\$ 152,070	\$ 150,124	\$ 125,109	\$ 128,086	\$ 277,179	\$ 278,210
Capital assets	285,103	291,770	241,046	234,716	526,149	526,486
Deferred outflows of resources	55	58	2,715	2,906	2,770	2,964
Total assets and deferred outflows of resources	<u>437,228</u>	<u>441,952</u>	<u>368,870</u>	<u>365,708</u>	<u>806,098</u>	<u>807,660</u>
Liabilities:						
Long-term liabilities outstanding	96,219	98,845	146,314	151,488	242,533	250,333
Other liabilities	17,093	13,804	13,477	12,015	30,570	25,820
Total liabilities	<u>113,312</u>	<u>112,649</u>	<u>159,791</u>	<u>163,503</u>	<u>273,103</u>	<u>276,153</u>
Net position:						
Net investment in capital assets	207,004	211,228	151,540	141,057	358,544	352,285
Restricted	92,356	90,152			92,356	90,152
Unrestricted	24,556	27,923	57,540	61,147	82,096	89,070
Total net position	<u>\$ 323,916</u>	<u>\$ 329,303</u>	<u>\$ 209,080</u>	<u>\$ 202,204</u>	<u>\$ 532,996</u>	<u>\$ 531,507</u>

## CITY OF ESCONDIDO Management's Discussion and Analysis

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### Analysis of Net Position

As noted earlier, the City's net position can serve as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the City's assets plus deferred outflows of resources exceeded liabilities by \$532,995,953. Below are the three components of net position and their respective fiscal year-end balances:

- **Net investment in capital assets:** At June 30, 2014 the net investment in capital assets represents 67.3 percent, or \$358.5 million, of the City's total net position. This component consists of capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. Capital assets themselves cannot be used to liquidate these liabilities.
- **Restricted net position:** At June 30, 2014 restricted net position account for 17.3 percent, or \$92.4 million, of the City's total net position and represent resources that are subject to external restrictions on how they may be used.
- **Unrestricted net position:** The remaining balance of unrestricted net position account for 15.4 percent, or \$82.1 million, of the City's total net position and may be used to meet the government's ongoing obligations to citizens and creditors for each respective governmental or business-type activity.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**CITY OF ESCONDIDO**  
**Management's Discussion and Analysis**

**City of Escondido's Changes in Net Position**  
(Amounts expressed in thousands)

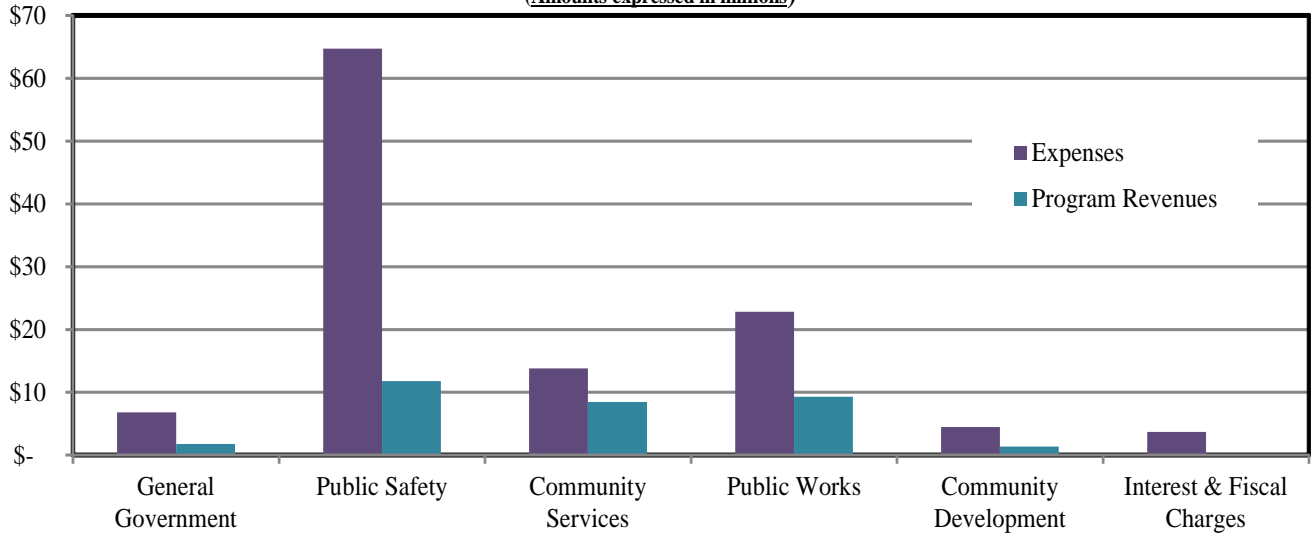
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 16,277	\$ 15,099	\$ 83,825	\$ 77,339	\$ 100,102	\$ 92,438
Operating grants and contributions	13,031	12,507	243	7	13,274	12,514
Capital grants and contributions	3,332	8,528	1,880	3,859	5,212	12,387
General revenues:						
Sales tax	27,366	24,202			27,366	24,202
Property taxes	16,805	16,739			16,805	16,739
Other taxes	28,988	27,530			28,988	27,530
Other	5,047	4,360	1,738	1,970	6,785	6,330
Total revenues	<u>110,846</u>	<u>108,965</u>	<u>87,686</u>	<u>83,175</u>	<u>198,532</u>	<u>192,140</u>
Expenses:						
General government	6,817	6,931			6,817	6,931
Public safety	64,735	58,937			64,735	58,937
Community services	13,824	13,492			13,824	13,492
Public works	22,831	28,719			22,831	28,719
Community development	4,443	6,096			4,443	6,096
Contributions to other governments		4,319				4,319
Interest and fiscal charges	3,708	4,039			3,708	4,039
Water			51,937	48,899	51,937	48,899
Wastewater			28,748	25,848	28,748	25,848
Total expenses	<u>116,358</u>	<u>122,533</u>	<u>80,685</u>	<u>74,747</u>	<u>197,043</u>	<u>197,280</u>
Extraordinary gain (loss)		<u>(34,948)</u>				<u>(34,948)</u>
Increase in net position before transfers	(5,512)	(48,516)	7,001	8,428	1,489	(40,088)
Transfers	125	25	(125)	(25)		
Increase in net position before transfers	(5,387)	(48,491)	6,876	8,403	1,489	(40,088)
Net assets – July 1, as restated	<u>329,303</u>	<u>377,794</u>	<u>202,204</u>	<u>193,801</u>	<u>531,507</u>	<u>571,595</u>
Net assets – June 30	<u>\$ 323,916</u>	<u>\$ 329,303</u>	<u>\$ 209,080</u>	<u>\$ 202,204</u>	<u>\$ 532,996</u>	<u>\$ 531,507</u>

**CITY OF ESCONDIDO**  
**Management's Discussion and Analysis**

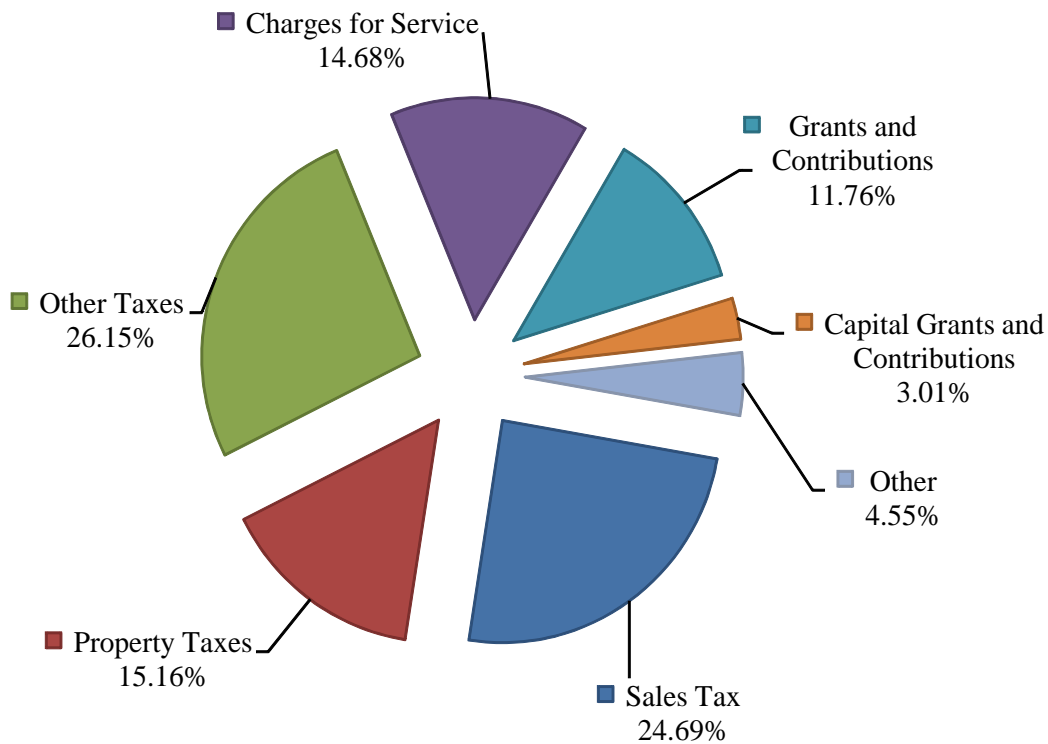
**Expenses and Program Revenues – Governmental Activities**

**Expenses and Program Revenues - Governmental Activities**

(Amounts expressed in millions)



**Revenues by Source – Governmental Activities**



## **CITY OF ESCONDIDO**

### **Management's Discussion and Analysis**

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#### **Analysis of Changes in Net Position – Governmental activities**

Governmental activities decreased the City's net position by \$5,386,997.

Total governmental revenues increased by \$1.9 million or 1.7 percent during the current fiscal year to reach total revenues of \$110 million. Key elements of this change are as follows:

- Overall sales tax revenue increased by \$3.2 million, or 13.1 percent compared to the prior year. Revenue received from sales tax increased from the prior fiscal year due to an increase in the City's largest economic category, transportation, due to a rise in new and used auto sales during the fiscal year.
- Property tax revenue remained steady over the prior fiscal year increasing by about 0.4 percent. The assessed value growth for Escondido in fiscal year 2013/14 was up about 2.7 percent compared to the prior year.
- Other tax revenue increased by \$1.5 million, or 5.3 percent, and is composed of increases in property tax in lieu of sales tax, property tax in lieu of vehicle license fees (VLF), property transfer tax, transient occupancy tax, and business licenses. Property tax in lieu of sales tax saw the largest increase over the prior fiscal year, about \$723,000 due to increased sales tax collected on new auto sales. Property tax in lieu of VLF also saw an increase of 2.3 percent or \$240,000 due to the increase in the property tax assessed values in the City.
- Other revenue increased by \$686,221, or 15.7 percent, compared to last year due to an increase in loan interest revenue collected during the fiscal year as well as an increase in accrued interest revenue from the Housing Successor Agency loan portfolio.

Overall charges for services increased by \$1.2 million, or 7.8 percent, reflecting the following:

- General government charges for services increased by \$567,000 due to an increase in paramedic revenue of \$0.5 million as well as engineering fees of \$360,000 related to revenue recognized for fiber optic installations. These increases were offset by a decrease in mobilehome fees as well as the elimination of passport services performed by the City.
- Public safety charges for services decreased by \$.1 million primarily due to a reduction from red light camera fines, impound fees and parking ticket fines.
- Community services charges for services decreased by \$14,000 due to a reduction in the mobilehome rent revenue received during the fiscal year.
- Public works charges for services increased by \$293,000 due to an increase in engineering fees as a result of more construction activity throughout the city as well as increases in the utility underground waiver fees collected from developers.
- Community development charges for services increased by \$438,000 due to an increase in other planning fees collected as a result of an increase in construction and building activity in the city.

Operating grants and contributions increased by \$.5 million, or 4.2 percent, reflecting the following:

- General government operating grants and contributions decreased by \$230,000 due to fewer state and county grants received in the current fiscal year. In fiscal year 2013 the City received a one-time grant of \$200,000 from the State for remediation of the Benton Burn Site located within the Escondido Country Club area. The City also received approximately \$100,000 more in fiscal year 2013 from the County of San Diego for the Regional Auto Theft Task Force program. These decreases were offset by increases in PEG fee revenue recognized during the current fiscal year for a capital improvement project that will use those fees to purchase equipment to support the City's Government Access Channel facilities.

## CITY OF ESCONDIDO Management's Discussion and Analysis

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- Public safety operating grants and contributions increased by \$.9 million. This was primarily due to new Federal funding administered by the California Department of Health and Human Services called the Ground Emergency Medical Transportation Supplemental Reimbursement Program. The City received approximately \$933,000 in fiscal year 2014 and anticipates receiving \$400,000 annually.
- Community services operating grants and contributions decreased by \$.9 million due to federal grant revenue of \$977,000 received in the prior fiscal year for the Neighborhood Stabilization Program. Funds were used for the new construction of affordable housing units for the purpose of redevelopment. This grant program ended in fiscal year 2013.
- Public works operating grants and contributions increased by \$.7 million due to an increase of approximately \$1.2 million in Gas Tax revenue received over the prior fiscal year. This increase was offset by \$.4 million of one-time revenue received in fiscal year 2013 as a result of Assembly Bill 1572 which required the San Diego Association of Governments to distribute all San Diego Service Authority for Freeway Emergencies (SAFE) program reserves in excess of \$4 million in proportion to the vehicle registration fees paid in FY 2011 by the residents of each city and the unincorporated areas.

Capital grants and contributions decreased by \$5.2 million, or 60.9 percent, compared to the prior year. This decrease was mainly the result of large developer contributions received in fiscal year 2013 totaling \$3.7 million for streets, signalized lights and storm drains related to the completion of several housing projects. The City also received approximately \$1.5 million more than the current fiscal year in federal grant revenue for construction of the Maple Street Pedestrian Plaza which was completed in the prior fiscal year.

Governmental activities expenses decreased by \$6.2 million, or 5.0 percent, in fiscal year 2014. Details of these expenses include:

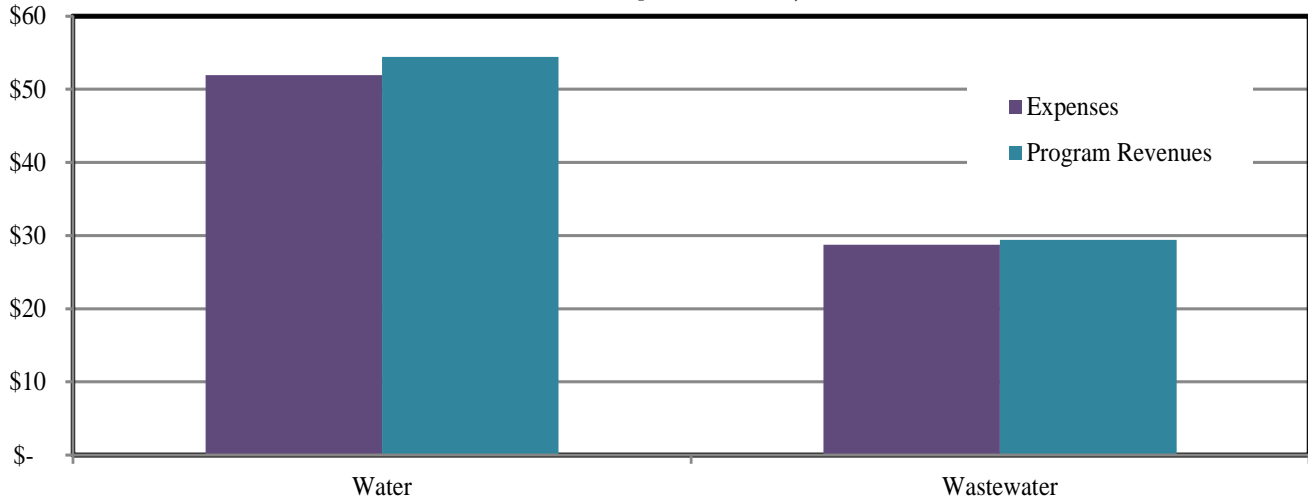
- Public safety expenses increased by \$5.8 million, or 9.8 percent, compared to the prior year. The Fire department added three safety positions to staff the Seventh Engine Company and twenty-four non-safety positions to staff additional ambulances during mid-year 2012-13. In addition there were negotiated salary increases effective during the fiscal year, increases to workers' compensation liabilities as well as increased overtime paid to firefighters and public safety employee overhead expenses.
- Public works expenses decreased by \$5.9 million, or 20.5 percent, primarily due to a decrease in Street Maintenance expenditures of approximately \$1.7 million. In addition, a department reorganization decreased employee services, internal service charges, and professional service charges. Supplies for the parks maintenance department also decreased in the fiscal year.
- Community development expenses decreased by \$1.7 million, or 27.1 percent, compared to the prior year due to the dissolution of the Community Development Commission. The dissolution of the Commission eliminated the twenty percent tax increment housing set-aside required by the State to be used to assist low and moderate income families within the City. Without the funding, the activities of the Housing Department were reduced as well as the internal service allocations which decreased the Community Development expenditures incurred in the current fiscal year.
- Contributions to other governments of \$4.3 million were reported in the prior fiscal year due to activities related to the dissolution of the Escondido Redevelopment Agency. This activity represented available resources in the Debt Service Housing fund that were contributed to the Successor Agency of the Former Community Development Commission Private Purpose Trust Fund.

**CITY OF ESCONDIDO**  
**Management's Discussion and Analysis**

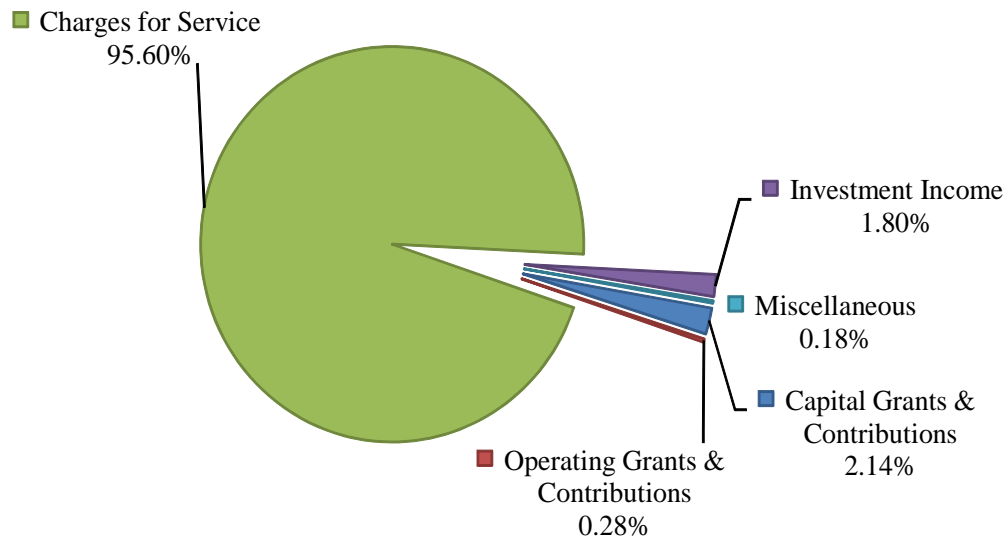
**Expenses and Program Revenues – Business-type Activities**

**Expenses and Program Revenues - Business Activities**

(Amounts expressed in millions)



**Revenues by Source – Business-type Activities**





## CITY OF ESCONDIDO Management's Discussion and Analysis

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**Analysis of Changes in Net Position – Business-type activities.** Business-type activities increased the City's net position by \$6,875,600. Key elements of this increase are as follows:

- Charges for services increased by \$6.5 million or 8.4 percent largely due to rate increases that went into effect in the current year and resulted in increased charges for services to the water fund of \$5.5 million and \$931,000 in the wastewater fund.
- Total expenses increased by \$5.9 million or 8.0 percent, mainly due to an increase in purchased water costs of \$5.0 million which occurred because the cost to purchase water from San Diego County Water Authority went up about 7.5% during the year. In addition water consumption increased in 2013-14, which resulted in more purchased water needed than in the prior year when reservoirs were full and more local water was sold. Purchased water costs approximately 25% more than local water. Wastewater expenses increased due to a \$1 million increase in professional service contracts for the benthic study, ocean monitoring and municipal separate storm sewer (MS4) maintenance. In addition, due to reorganization within the utilities department, five full-time positions were added to the Wastewater fund.
- Capital contributions decreased by \$2.3 million due to donated assets received in the prior fiscal year by private developers as part of the following capital projects completed in fiscal year 2013: Paramount, a residential multifamily subdivision, Washington Hills, a 124 unit subdivision, and Rancho Vistamonte, an 80 unit upscale subdivision.

### **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$102,745,602, a decrease of \$560,000 in comparison with the prior year. Of this amount, .2 percent or \$217,690 represents non-spendable assets, advances and loans receivable, which are not expected to be converted to cash until future periods. Approximately 79.4 percent of this total amount or \$81,559,045 is not available for new spending because it is legally restricted by external third parties. In addition, \$20,365,302 or 19.8 percent of ending fund balance has either been committed by the City Council to be spent for specific purposes or has been assigned by the Director of Administrative Services to meet specific expenditures in subsequent years. The remaining unassigned fund balance of \$603,565 is available for spending.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, committed fund balance of the General Fund includes \$17,319,659 in Reserves available to fund one-time unanticipated expenditures while total fund balance is \$20,188,333. As a measure of the General Fund's liquidity, it may be useful to compare the Reserve fund balance and total fund balance to total fund expenditures. The Reserve fund balance represents 21.4 percent of total General Fund expenditures, while total fund balance represents 25.0 percent of that same amount.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$753,472. General Fund operating revenues were \$3.5 million greater than the prior fiscal year but were also slightly under budget by \$.3 million. Operating expenditures for the General Fund were \$3.4 million greater than the prior year but under budgeted amounts by approximately \$2 million. The excess of revenues over expenditures of \$260,000 was offset by net transfers out of the General Fund of \$1.6 million. The Fleet and Public Facilities Funds transferred money to the General Fund in December 2010 to go towards the purchase of property. This property was sold during the current fiscal year; the proceeds were used to pay back the transfer.

**CITY OF ESCONDIDO**  
**Management's Discussion and Analysis**

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**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the current fiscal year, the unrestricted net position of the Water and Wastewater Fund amounted to \$21,567,036, and \$35,719,184 respectively. The total growth in net position was the result of an increase of \$5,118,805 in the Water Fund and \$2,343,267 in the Wastewater Fund. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

The original general fund operating budget approved by Council was balanced with no use of reserves or significant one time transfers in from other funds. This was achieved with estimated revenues and transfers in of \$82.8 million and estimated expenditures and transfers out of \$82.5 million.

A comparison of the original general fund budgeted revenue of \$82.8 million to the final general fund budgeted revenue of \$84.0 results in a net increase in budgeted revenue of \$1.2 million. This increase was due to a mid-year budget adjustment that increased revenue estimates by \$1.2 million mainly as a result of improved other tax receipts and charges for services.

Differences between the original and the final budgeted revenues can be briefly summarized as follows:

\$ 1,257,500	in decreases in sales taxes
1,221,500	in increases in other taxes
100,000	in decreases to fines and forfeitures
36,000	in increases to intergovernmental revenue
830,190	in increases in charges for services
200,000	in decreases in investment income
515,155	in increases in other miscellaneous revenue
130,079	in increases in transfers in

Comparison of the fiscal year original general fund budgeted expenditures of \$82.5 million to the final general fund budgeted expenditures of \$86.6 million results in a net increase in budgeted expenditures of \$4.1 million.

Differences between the original and the final budgeted expenditures can be briefly summarized as follows:

\$ 108,465	in decreases in general government activities
427,625	in increases allocated to the police department
360,625	in increases allocated to the fire department
50,335	in increases allocated for public works
110,495	in increases in community services
39,730	in increases in community development activities
3,208,937	in increases to operating transfers out

Actual General Fund revenues were \$129,903 less than final budgeted amounts and expenditures were \$1,970,289 less than final budgeted amounts. The General Fund ended the fiscal year with a \$753,472 net loss and Reserve balance of \$17.3 million.

## CITY OF ESCONDIDO Management's Discussion and Analysis

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### Capital Asset and Debt Administration

**Capital assets.** As of June 30, 2014, the City's investments in capital assets for its governmental and business-type activities are \$526,149,682, (net of accumulated depreciation). This investment in capital assets includes land, buildings, land improvements, machinery and equipment, motorized vehicles, park facilities, roads, bridges, water and wastewater systems, and a golf course. The total decrease in the City's investment in capital assets for the current fiscal year is .06 percent; this represents a 2.3 percent decrease for governmental activities and a 2.7 percent increase for business-type activities.

**Governmental Activities.** Major capital asset events for governmental activities during the current fiscal year included the following:

Construction in progress decreased by a net \$87,560 due to current year increases of \$4,686,394 and decreases of \$4,773,957. Current year additions include a street project to widen an existing two-lane roadway to four-lanes on Bear Valley Parkway; the Citracado & Harmony Grove project which includes widening the street and median improvements, and various network upgrades.

Current year decreases to construction in progress were due to the completion of the Grape Street Improvement project which includes new curbs, gutters, retaining walls, sidewalks, street lights and street surfaces, the Daley Ranch Improvement Project to retrofit the ranch house for public use and construction of restroom facilities housed within the façade of the existing garage, and the installation of a storm drain on Eldorado and Encino Drive.

Motorized vehicles increased by \$2.9 million due to the purchase of city vehicles for the replacement of older vehicles and equipment that are replaced on a predetermined schedule. This included the purchase of twenty-three Ford Police Interceptor vehicles as well as a street sweeper. Increases also include additions from construction in progress due to the completion of two Pierce Arrow Pumps as well as one ambulance.

Additions to infrastructure totaled \$2.4 million. Of these additions, \$1.6 million came from the completion of various projects such as the Grape Street improvement project, improvements at the Daley Ranch House, and the installation of a storm drain on Eldorado and Encino Drive. An additional \$1.1 million of additions was due to developer contributions of signal lights and streets. These additions were offset by depreciation expense of \$4.8 million.

Machinery and equipment additions totaled \$886,000 due to the purchase of twenty-six EKG monitors for the Fire department. In addition, twenty-two mobile data computers used in fire engines and ambulances reached their useful life in the current fiscal year and were replaced.

**Business-type Activities.** Major capital asset events for business-type activities during the current fiscal year included the following:

Construction in progress increased by \$11.9 million due to several capital improvement projects. The largest increases to construction in progress was due ongoing projects located at the HAARF including rehabilitation and expansion of the existing Influent Pump Station at the wastewater treatment plant, a current year addition of \$6.1 million, as well as construction of a new plant operations building which will also house the wastewater collections staff.

Other additions to CIP include the Lake Wohlford Dam project which will investigate the potential for expansion of the capacity of the Lake Wohlford Reservoir; the Vista Verde Reservoir project which will replace an existing 0.75MG steel reservoir constructed in 1979 with two adequately sized to future needs; and a water line replacement on Bear Valley Parkway.

Developers contributed water and sewer lines of \$379,000 related to the completion of several projects including improvements for the new Walmart store which included a new water line, sidewalk improvements, landscaping, chain link fencing as well as a new traffic signal for the Harding Street extension project.

**CITY OF ESCONDIDO**  
**Management's Discussion and Analysis**

**City of Escondido's Capital Assets**

(net of depreciation / in thousands)

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 45,906	\$ 46,483	\$ 2,868	\$ 1,801	\$ 48,774	\$ 48,284
Buildings and systems	93,421	95,916	6,506	7,089	99,927	103,005
Improvements other than buildings	18,623	18,755	775	760	19,398	19,515
Machinery and equipment	8,076	9,137	2,665	2,053	10,741	11,190
Infrastructure	110,901	113,217	207,015	213,700	317,916	326,917
Construction in progress	8,176	8,263	21,217	9,314	29,393	17,577
<b>Total</b>	<b>\$ 285,103</b>	<b>\$ 291,771</b>	<b>\$ 241,046</b>	<b>\$ 234,717</b>	<b>\$ 526,149</b>	<b>\$ 526,488</b>

Additional information on the City's capital assets can be found in the notes on pages 71-73 of this report.

**Long-term debt.** At the end of the current fiscal year, the City has total bonded debt outstanding of \$192,310,000. The City debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds or lease obligations).

**City of Escondido's Outstanding Debt**

Certificates, Lease Revenue and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Certificates of participation	\$ 645	\$ 1,240	\$ 55,225	\$ 57,340	\$ 55,870	\$ 58,580
Revenue bonds			57,850	58,635	57,850	58,635
Lease revenue bonds	4,625	4,830			4,625	4,830
GO bonds	73,965	75,665			73,965	75,665
<b>Total</b>	<b>\$ 79,235</b>	<b>\$ 81,735</b>	<b>\$ 113,075</b>	<b>\$ 115,975</b>	<b>\$ 192,310</b>	<b>\$ 197,710</b>

Changes to the City's outstanding debt during the current fiscal year are due to routine principal payments on amounts outstanding.

Additional information on the City's long-term debt can be found in the notes on pages 75-83 of this report.

## **CITY OF ESCONDIDO**

### **Management's Discussion and Analysis**

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#### **Economic Factors and Next Year's Budgets and Rates**

The unemployment rate for the City as of June 2014 was 6.4 percent, which is a decrease from a rate of 7.7 percent a year ago, and it continues to show a downward trend. Taxable sales increased from the previous year by about \$1.4 million or 4.7% but were under budget by about \$1.3 million. Sales tax was projected to grow by 8% due to the opening of new businesses such as the Walmart Store and Cheesecake Factory; however, actual growth was only 5%. Overall, the City's General Fund revenue was up 4.4% over the prior year.

The fiscal year 2014-15 General Fund operating budget has been balanced without relying on the use of reserves for the fourth year in a row. This is the result of an improving economy and the City Council's prudent fiscal policies. General Fund revenues were estimated to go up by 5.6% and expenditures were increased by 6.6% compared to the previous year. Although the City still faces challenges due to a fluctuating economy, there are certainly signs that it is proceeding in the right direction.

#### **Requests for Information**

This financial report is designed to provide a general overview 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 City of Escondido, Finance Department, 201 North Broadway, Escondido, CA 92025.





# **Basic Financial Statements**

**CITY OF ESCONDIDO**  
**Statement of Net Position**  
**June 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total June 30, 2014	California Center for the Arts, Escondido Foundation June 30, 2014
<u>Assets</u>				
Cash and investments	\$ 67,566,256	\$ 54,199,902	\$ 121,766,158	\$ 1,555,673
Cash and investments with fiscal agent	673,137	57,823,934	58,497,071	
Receivables, net of allowances	72,162,814	12,234,425	84,397,239	115,406
Internal balances	(253,885)	253,885		
Due from other governments	7,796,336	241,574	8,037,910	
Inventory, at cost	454,863		454,863	23,348
Prepaid expenses	11,248		11,248	66,638
Deposits	367,688	6,800	374,488	
Prepaid expenses		12,267	12,267	
Prepaid bond insurance	202,430	231,721	434,151	
Land held for resale	3,089,552	104,573	3,194,125	
Assets held in charitable remainder				108,453
Capital assets:				
Not being depreciated	63,614,195	24,084,585	87,698,780	
Being depreciated, net	221,489,246	216,961,656	438,450,902	72,509
Total Assets	437,173,880	366,155,322	803,329,202	1,942,027
<u>Deferred outflows of resources</u>				
Deferred charges on refunding	54,526	2,715,557	2,770,083	
<u>Liabilities</u>				
Payables:				
Accounts	3,831,170	5,691,955	9,523,125	66,865
Retentions		150,445	150,445	
Interest	1,222,698	1,760,689	2,983,387	
Deposits	2,527,678	531,767	3,059,445	
Accrued expenses	2,279,005	266,126	2,545,131	96,003
Due to other governments	469,988		469,988	
Unearned revenue	387,579		387,579	327,295
Noncurrent liabilities:				
Payables due within one year:				
Employee leave benefits	725,585	111,234	836,819	79,806
Claims	2,910,112		2,910,112	
Loans	109,588	2,143,933	2,253,521	
Bonds	1,995,000	620,000	2,615,000	
Certificates of participation	645,000	2,200,000	2,845,000	
Payables due in more than one year:				
Connection rights		13,351,823	13,351,823	
Employee leave benefits	6,530,260	1,001,105	7,531,365	
Claims	11,640,447		11,640,447	
Loans	778,778	18,304,767	19,083,545	
Bonds, net	77,259,283	60,520,998	137,780,281	
Certificates of participation		53,136,319	53,136,319	
Total Liabilities	113,312,171	159,791,161	273,103,332	569,969

See Accompanying Notes to Basic Financial Statements.



**CITY OF ESCONDIDO**  
**Statement of Net Position (Continued)**  
**June 30, 2014**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total June 30, 2014	California Center for the Arts, Escondido Foundation June 30, 2014
<u>Net Position</u>				
Net investment in capital assets	207,003,751	151,539,613	358,543,364	79,806
Restricted for:				
Community services				
Expendable	2,302,472		2,302,472	
Nonexpendable	222,728		222,728	
Debt service	2,993,853		2,993,853	
Capital projects	1,829,815		1,829,815	
General government	2,281,299		2,281,299	
Low and moderate income housing	68,460,031		68,460,031	
Public safety	3,315,714		3,315,714	
Public works	10,950,668		10,950,668	
Unrestricted	24,555,904	57,540,105	82,096,009	1,292,252
Total Net Position	\$ 323,916,235	\$ 209,079,718	\$ 532,995,953	\$ 1,372,058

**CITY OF ESCONDIDO**  
**Statement of Activities**  
**For the Year Ended June 30, 2014**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 6,817,120	\$ 1,049,402	\$ 629,974	\$ 69,428
Public safety	64,735,010	8,217,629	3,450,379	123,869
Community services	13,824,749	4,104,210	4,182,963	176,044
Public works	22,830,644	1,554,453	4,767,861	2,962,560
Community development	4,442,510	1,351,882		
Interest and fiscal charges	3,709,135			
Total Governmental Activities	<u>116,359,168</u>	<u>16,277,576</u>	<u>13,031,177</u>	<u>3,331,901</u>
Business-type activities:				
Water	51,937,493	54,411,250		1,071,907
Wastewater	28,748,596	29,413,549	243,302	807,902
Total Business-type Activities	<u>80,686,089</u>	<u>83,824,799</u>	<u>243,302</u>	<u>1,879,809</u>
Total Primary Government	<u>\$ 197,045,257</u>	<u>\$ 100,102,375</u>	<u>\$ 13,274,479</u>	<u>\$ 5,211,710</u>
Component Unit:				
California Center for the Arts, Escondido Foundation	<u>\$ 8,726,399</u>	<u>\$ 2,594,774</u>	<u>\$ 5,511,574</u>	<u>\$</u>

General Revenues

Taxes:

Sales tax

Property tax

Property tax in lieu of sales tax

Property tax in lieu of VLF tax

Property transfer tax

Franchise tax

Franchise tax in lieu

Transient occupancy tax

Business license tax

Transfer station tax

Refuse collection tax

Intergovernmental, unrestricted

Investment and rental income

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning of Year

Net Position - End of Year

See Accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total June 30, 2014	California Center for the Arts, Escondido Foundation June 30, 2014
\$ (5,068,316)	\$	\$ (5,068,316)	\$
(52,943,133)		(52,943,133)	
(5,361,532)		(5,361,532)	
(13,545,770)		(13,545,770)	
(3,090,628)		(3,090,628)	
(3,709,135)		(3,709,135)	
(83,718,514)		(83,718,514)	
	3,545,664	3,545,664	
	1,716,157	1,716,157	
	5,261,821	5,261,821	
(83,718,514)	5,261,821	(78,456,693)	
\$	\$	\$	\$ (620,051)
27,366,084		27,366,084	
16,805,289		16,805,289	
8,169,146		8,169,146	
10,668,256		10,668,256	
507,599		507,599	
4,694,252		4,694,252	
1,237,826		1,237,826	
1,322,016		1,322,016	
1,658,276		1,658,276	
648,068		648,068	
82,955		82,955	
62,583		62,583	244,520
4,091,316	1,577,693	5,669,009	82,503
892,851	161,086	1,053,937	106,732
125,000	(125,000)		
78,331,517	1,613,779	79,945,296	433,755
(5,386,997)	6,875,600	1,488,603	(186,296)
329,303,232	202,204,118	531,507,350	1,558,354
\$ 323,916,235	\$ 209,079,718	\$ 532,995,953	\$ 1,372,058

**CITY OF ESCONDIDO**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	<u>General</u>	<u>Special Revenue Successor Agency Housing</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Cash and investments	\$ 17,263,978	\$ 1,267,541	\$ 27,614,824	\$ 46,146,343
Cash and investments with fiscal agent			673,137	673,137
Receivables (net):				
Accounts	4,101,035	2,778	315,079	4,418,892
Interest	73,018	5,806,225	3,457,102	9,336,345
Taxes	8,260,243		29,613	8,289,856
Loans	58,440	35,500,788	14,421,451	49,980,679
Loans to Successor Agency		3,399,292	974,044	4,373,336
Due from:				
Other funds	1,158,720			1,158,720
Other governments	227,534		3,195,466	3,423,000
Inventory, at cost			9,000	9,000
Prepaid expenditures			11,248	11,248
Deposits			55,088	55,088
Land held for resale, at cost		2,287,410	802,142	3,089,552
Advances to other funds	159,250		530,000	689,250
 Total Assets	 <u>\$ 31,302,218</u>	 <u>\$ 48,264,034</u>	 <u>\$ 52,088,194</u>	 <u>\$ 131,654,446</u>

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Balance Sheet**  
**Governmental Funds (Continued)**  
**June 30, 2014**

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u>				
Liabilities:				
Payables:				
Accounts	\$ 1,794,570	\$ 6,340	\$ 1,296,559	\$ 3,097,469
Deposits	554,598		1,973,080	2,527,678
Accrued expenditures	2,003,468	4,904	178,249	2,186,621
Due to other funds			1,158,720	1,158,720
Due to other governments			469,988	469,988
Unearned revenue			387,579	387,579
Advances from other funds	330,000		359,250	689,250
Total Liabilities	4,682,636	11,244	5,823,425	10,517,305
Deferred Inflows of Resources:				
Unavailable revenue	6,431,249	5,802,028	6,158,262	18,391,539
Fund Balances:				
Nonspendable	217,690			217,690
Restricted for		42,450,762	39,108,283	81,559,045
Committed to	17,319,659		2,008,525	19,328,184
Assigned to	897,465		139,653	1,037,118
Unassigned	1,753,519		(1,149,954)	603,565
Total Fund Balances	20,188,333	42,450,762	40,106,507	102,745,602
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 31,302,218</u>	<u>\$ 48,264,034</u>	<u>\$ 52,088,194</u>	<u>\$ 131,654,446</u>

See Accompanying Notes to Basic Financial Statements.



**CITY OF ESCONDIDO**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**June 30, 2014**

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Fund balances for governmental funds	\$ 102,745,602
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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 allocated from internal service funds are included in the internal service fund adjustment below.

Capital assets	\$ 563,930,148	
Ending accumulated depreciation	(285,901,945)	
		278,028,203

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.	18,391,539
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Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The assets and liabilities of the internal service funds are included in the statement of net position.	12,849,012
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Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Noncurrent liabilities allocated from internal service funds are included in the internal service fund adjustment above.

Employee leave benefits	(7,088,356)	
Loans	(144,740)	
Bonds	(79,235,000)	
Bond premium	(673,440)	
Bond discount	9,157	
Loss on refunding	54,526	
Prepaid bond insurance	202,430	
		(86,875,423)

Interest on noncurrent liabilities is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Interest payable	(1,222,698)
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Net position of governmental activities	\$ <u><u>323,916,235</u></u>
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See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2014**

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Sales tax	\$ 32,277,295	\$	\$	\$ 32,277,295
Other taxes	21,920,254		3,091,906	25,012,160
Licenses and permits	991,164			991,164
Fines and forfeits	1,184,292			1,184,292
Intergovernmental	13,703,132		10,005,457	23,708,589
Charges for services	7,500,560		5,013,025	12,513,585
Special assessments			5,796,337	5,796,337
Lease income		205,259		205,259
Investment income	156,253	272,247	467,326	895,826
Miscellaneous	3,329,114	41,640	895,225	4,265,979
<b>Total Revenues</b>	<b>81,062,064</b>	<b>519,146</b>	<b>25,269,276</b>	<b>106,850,486</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	5,584,674		226,342	5,811,016
Public safety	56,166,466		1,707,555	57,874,021
Public works	9,813,633		5,375,707	15,189,340
Community services	6,234,010		5,894,494	12,128,504
Community development	2,979,712	724,378	534,104	4,238,194
Capital outlay			5,550,440	5,550,440
<b>Debt service:</b>				
Principal retirements	23,176		2,505,185	2,528,361
Interest and fiscal charges			3,737,237	3,737,237
<b>Total Expenditures</b>	<b>80,801,671</b>	<b>724,378</b>	<b>25,531,064</b>	<b>107,057,113</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>260,393</b>	<b>(205,232)</b>	<b>(261,788)</b>	<b>(206,627)</b>

(Continued)

See Accompanying Notes to Basic Financial Statements.



**CITY OF ESCONDIDO**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds (Continued)**  
**For the Year Ended June 30, 2014**

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):				
Sale of capital assets	537,293	(250,753)	1,060,000	1,346,540
Transfers in	2,278,879	60,000	2,696,364	5,035,243
Transfers out	(3,830,037)		(2,904,706)	(6,734,743)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,013,865)</b>	<b>(190,753)</b>	<b>851,658</b>	<b>(352,960)</b>
 Net Change in Fund Balance	 (753,472)	 (395,985)	 589,870	 (559,587)
 Fund Balances:				
Fund Balance at Beginning of Year	20,941,805	42,846,747	39,516,637	103,305,189
Fund Balances at End of Year	<u>\$ 20,188,333</u>	<u>\$ 42,450,762</u>	<u>\$ 40,106,507</u>	<u>\$ 102,745,602</u>

See Accompanying Notes to Basic Financial Statements.



**CITY OF ESCONDIDO**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2014**

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Net change in fund balances - total governmental funds: \$ (559,587)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays, contributed capital assets, retirements, and capital related expenditures exceeded depreciation in the current period. Capital asset activity from internal service funds are reported in the internal service activity below.

Capital outlay	\$ 5,381,293	
Contributed capital assets	1,102,418	
Depreciation	(12,780,065)	
Disposal of capital assets	(576,857)	
Capital assets contributed to business-type activities	<u>(265,676)</u>	
		(7,138,887)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,611,163

Internal service funds are used by management to charge the costs of activities involved in rendering services to departments within the City. The assets and liabilities of the internal service funds are included in the statement of net assets. (1,617,913)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however, has any effect on net assets.

Change in employee leave benefits	(269,221)	
Principal retirements	2,528,361	
Accrued interest	<u>59,087</u>	
		<u>2,318,227</u>

Change in net assets of governmental activities \$ (5,386,997)

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	Water	Wastewater	Total	Internal Service Funds
<u>Assets</u>				
Current Assets:				
Cash and investments	\$ 17,091,277	\$ 37,108,625	\$ 54,199,902	\$ 21,419,914
Receivables (Net):				
Accounts	10,011,273	1,279,990	11,291,263	59,909
Interest	75,885	163,697	239,582	77,132
Loans		45,254	45,254	
Due from other governments		241,574	241,574	
Inventory				445,863
Prepaid expenses		12,267	12,267	
Deposits	6,800		6,800	312,600
Total Current Assets	27,185,235	38,851,407	66,036,642	22,315,418
Noncurrent assets:				
Receivables (Net):				
Loans		658,326	658,326	
Total Noncurrent Receivables		658,326	658,326	
Land held for resale	104,573		104,573	
Prepaid bond insurance	119,789	111,932	231,721	
Restricted:				
Cash and investments with fiscal agent	27,196,575	30,627,359	57,823,934	
Capital assets:				
Land	1,488,268	1,379,756	2,868,024	
Land improvements	626,162	337,125	963,287	
Buildings	14,849,333	9,631,885	24,481,218	1,553,865
Water system	122,968,161		122,968,161	
Electric system	3,609,179		3,609,179	
Recycled water system		24,163,391	24,163,391	
Sewer system		159,048,136	159,048,136	
Machinery and equipment	3,399,345	4,011,072	7,410,417	28,872,721
Construction in progress	6,698,921	14,517,640	21,216,561	12,397
Total Capital Assets	153,639,369	213,089,005	366,728,374	30,438,983
Less accumulated depreciation	(55,539,098)	(70,143,035)	(125,682,133)	(23,363,745)
Total Capital Assets (Net of Accumulated Depreciation)	98,100,271	142,945,970	241,046,241	7,075,238
Total Noncurrent Assets	125,521,208	174,343,587	299,864,795	7,075,238
Total Assets	152,706,443	213,194,994	365,901,437	29,390,656
<u>Deferred outflows of resources</u>				
Deferred charge on refunding	1,068,683	1,646,874	2,715,557	

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Net Position**  
**Proprietary Funds (Continued)**  
**June 30, 2014**

	Water	Wastewater	Total	Internal Service Funds
<u>Liabilities</u>				
Current Liabilities:				
Payables:				
Accounts	3,901,159	1,790,796	5,691,955	733,691
Revenue bonds	475,000	145,000	620,000	
Certificates of participation	550,000	1,650,000	2,200,000	
Loans	219,613	1,924,320	2,143,933	81,229
Retentions	29,386	121,059	150,445	
Accrued interest	898,586	862,103	1,760,689	
Employee leave benefits	38,149	73,085	111,234	16,750
Estimated claims				2,910,112
Accrued expenses	124,456	141,670	266,126	92,385
Total Current Liabilities	<u>6,236,349</u>	<u>6,708,033</u>	<u>12,944,382</u>	<u>3,834,167</u>
Noncurrent Liabilities:				
Payables:				
Revenue bonds	31,791,796	28,729,202	60,520,998	
Certificates of participation	27,226,877	25,909,442	53,136,319	
Connection rights payable	9,327,594	4,024,229	13,351,823	
Deposits	387,696	144,071	531,767	
Employee leave benefits	343,340	657,765	1,001,105	150,739
Estimated claims				11,640,447
Loans	3,464,849	14,839,918	18,304,767	662,397
Total Noncurrent Liabilities	<u>72,542,152</u>	<u>74,304,627</u>	<u>146,846,779</u>	<u>12,453,583</u>
Total Liabilities	<u>78,778,501</u>	<u>81,012,660</u>	<u>159,791,161</u>	<u>16,287,750</u>
<u>Net Position</u>				
Net investment in capital assets	53,429,589	98,110,024	151,539,613	7,075,238
Unrestricted	21,567,036	35,719,184	57,286,220	6,027,668
Total Net Position	<u>\$ 74,996,625</u>	<u>\$ 133,829,208</u>	<u>\$ 208,825,833</u>	<u>\$ 13,102,906</u>
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			<u>253,885</u>	
Net position of business-type activities			<u>\$ 209,079,718</u>	

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2014**

	Water	Wastewater	Total	Internal Service Funds
Operating Revenues:				
Charges for services	\$ 53,920,870	\$ 29,413,549	\$ 83,334,419	\$ 25,747,849
Operating Expenses:				
Personnel services	7,278,175	8,332,836	15,611,011	4,225,296
Purchased water	24,283,807		24,283,807	
Administrative expenses	5,338,640	1,739,223	7,077,863	1,833,569
Benefit claims				2,117,752
Supplies	2,351,990	1,327,803	3,679,793	289,232
Repairs and maintenance	1,269,945	2,044,549	3,314,494	967,210
Depreciation	3,529,669	5,257,941	8,787,610	2,009,368
Utilities	2,514,393	2,199,439	4,713,832	1,208,246
Fuel				1,267,187
Professional services	1,005,355	3,498,002	4,503,357	5,356,508
Insurance premiums	424,415	315,855	740,270	10,395,665
Rent	310,536	319,436	629,972	1,284
Other	440,221	425,326	865,547	587,846
Total Operating Expenses	48,747,146	25,460,410	74,207,556	30,259,163
Operating Income	5,173,724	3,953,139	9,126,863	(4,511,314)
Nonoperating Revenues (Expenses):				
Investment income	220,284	430,783	651,067	151,839
Rents and concessions	845,134		845,134	
Interest and fiscal charges	(2,805,090)	(3,086,971)	(5,892,061)	(30,985)
Miscellaneous	632,174	364,069	996,243	189,595
Total Nonoperating Revenues (Expenses)	(1,107,498)	(2,292,119)	(3,399,617)	310,449
Income Before Transfers and Capital Contributions	4,066,226	1,661,020	5,727,246	(4,200,865)

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds (Continued)**  
**For the Year Ended June 30, 2014**

	Water	Wastewater	Total	Internal Service Funds
Transfers in				2,273,600
Transfers out		(125,000)	(125,000)	(449,100)
<b>Total Transfers</b>		<b>(125,000)</b>	<b>(125,000)</b>	<b>1,824,500</b>
<b>Income Before Capital Contributions</b>	<b>4,066,226</b>	<b>1,536,020</b>	<b>5,602,246</b>	<b>(2,376,365)</b>
<b>Capital Contributions:</b>				
Connection fees	490,380	764,266	1,254,646	
Developer contributions	562,199	42,981	605,180	171,989
<b>Total Capital Contributions</b>	<b>1,052,579</b>	<b>807,247</b>	<b>1,859,826</b>	<b>171,989</b>
<b>Changes in Net Position</b>	<b>5,118,805</b>	<b>2,343,267</b>	<b>7,462,072</b>	<b>(2,204,376)</b>
<b>Net Position at Beginning of Year</b>	<b>69,877,820</b>	<b>131,485,941</b>	<b>201,363,761</b>	<b>15,307,282</b>
<b>Net Position at End of Year</b>	<b>\$ 74,996,625</b>	<b>\$ 133,829,208</b>	<b>\$ 208,825,833</b>	<b>\$ 13,102,906</b>
<b>Change in Net Position</b>			<b>\$ 7,462,072</b>	
Adjustment to reflect the consolidation of internal service fund activities to related enterprise funds			(586,472)	
<b>Change in net assets of business-type activities</b>			<b>\$ 6,875,600</b>	

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2014**

	Water	Wastewater	Totals	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 53,652,829	\$ 29,640,313	\$ 83,293,142	\$ 25,755,351
Cash paid to employees for services	(7,396,494)	(8,218,353)	(15,614,847)	(6,068,785)
Cash paid to other suppliers of goods or services	(37,139,420)	(11,288,139)	(48,427,559)	(21,430,215)
Cash from rents and concessions	845,134		845,134	
Cash from other sources	606,703	387,101	993,804	69,419
Net Cash Provided by Operating Activities	<u>10,568,752</u>	<u>10,520,922</u>	<u>21,089,674</u>	<u>(1,674,230)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Cash received from other funds				2,273,600
Cash paid to other funds		(125,000)	(125,000)	(449,100)
Net Cash Provided by Noncapital Financing Activities		<u>(125,000)</u>	<u>(125,000)</u>	<u>1,824,500</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Purchase and construction of capital assets	(3,975,403)	(10,482,788)	(14,458,191)	(2,295,191)
Sale of capital assets				106,228
Payments on connection rights	(41,990)		(41,990)	
Cash received for connection fees	490,380	764,266	1,254,646	
Principal payments on certificates of participation	(1,175,000)	(1,725,000)	(2,900,000)	
Interest payments on certificates of participation	(2,739,001)	(2,587,198)	(5,326,199)	
Proceeds from loans				
Principal payments on loans	(214,210)	(1,922,536)	(2,136,746)	(78,200)
Interest payments on loans	(96,343)	(394,123)	(490,466)	(30,985)
Net Cash (Used for) Capital and Related Financing Activities	<u>(7,751,567)</u>	<u>(16,347,379)</u>	<u>(24,098,946)</u>	<u>(2,298,148)</u>
<b>Cash Flows from Investing Activities:</b>				
Advance to other fund		3,780,000	3,780,000	
Investment income received	220,465	533,216	753,681	174,357
Net Cash Provided by (Used for) Investing Activities	<u>220,465</u>	<u>4,313,216</u>	<u>4,533,681</u>	<u>174,357</u>
Net Increase in Cash and Cash Equivalents	3,037,650	(1,638,241)	1,399,409	(1,973,521)
Cash and Cash Equivalents at Beginning of Year	<u>41,250,202</u>	<u>69,374,225</u>	<u>110,624,427</u>	<u>23,393,435</u>
Cash and Cash Equivalents at End of Year	<u>\$ 44,287,852</u>	<u>\$ 67,735,984</u>	<u>\$ 112,023,836</u>	<u>\$ 21,419,914</u>

See Accompanying Notes to Basic Financial Statements.



**CITY OF ESCONDIDO**  
**Statement of Cash Flows**  
**Proprietary Funds (Continued)**  
**For the Year Ended June 30, 2014**

	Water	Wastewater	Totals	Internal Service Funds
Reconciliation of Cash Equivalents to the statement of net assets:				
Cash and investments	\$ 17,091,277	\$ 37,108,625	\$ 54,199,902	\$ 21,419,912
Restricted assets	27,196,575	30,627,359	57,823,934	
Cash and Cash Equivalents at the End of Year	<u>\$ 44,287,852</u>	<u>\$ 67,735,984</u>	<u>\$ 112,023,836</u>	<u>\$ 21,419,914</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	<u>\$ 5,173,724</u>	<u>\$ 3,953,139</u>	<u>\$ 9,126,863</u>	<u>\$ (4,511,314)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:				
Depreciation expense	3,529,669	5,257,941	8,787,610	2,009,368
Cash from rents and concessions	845,134		845,134	
Cash from other sources	605,095	334,397	939,492	69,419
Change in Assets and Liabilities:				
(Increase) decrease in accounts receivable	(281,870)	471,651	189,781	7,502
(Increase) decrease in due from other governments		(241,574)	(241,574)	
(Increase) decrease in inventories				(23,395)
(Increase) decrease in prepaid expenses		(3,313)	(3,313)	
(Increase) decrease in deposits	(6,800)		(6,800)	
(Increase) decrease in loans receivable	1,608	52,704	54,312	
Increase (decrease) in accounts payable	799,882	581,494	1,381,376	69,608
Increase (decrease) in accrued expenses	14,035	34,732	48,767	(21,832)
Increase (decrease) in employee leave benefits payable	(132,354)	79,751	(52,603)	11,912
Increase in customer deposits	20,629		20,629	
(Decrease) in estimated claims payable				714,502
Total Adjustments	<u>5,395,028</u>	<u>6,567,783</u>	<u>11,962,811</u>	<u>2,837,084</u>
Net Cash Provided by Operating Activities	<u>\$ 10,568,752</u>	<u>\$ 10,520,922</u>	<u>\$ 21,089,674</u>	<u>\$ (1,674,230)</u>
Noncash Investing, Capital and Financing Activities:				
Contributed property, plant and equipment	\$ 562,199	\$ 42,981	\$ 605,180	\$ 171,989
Bond amortization	517	84,149	84,666	

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

	Agency Funds	Private Purpose Trust Fund Successor Agency of the Former CDC
<u>Assets</u>		
Cash and investments	\$ 7,206,446	\$ 8,445,820
Restricted:		
Cash and investments with fiscal agent	1,904,189	
Receivables:		
Interest	10,985	12,493
Taxes	1,868	
Loans		2,741,651
Deferred bond issuance costs		142,843
Due from other governments		469,988
Capital assets:		
Not being depreciated		6,074,290
Being depreciated, net		32,119,799
Total Assets	<u>\$ 9,123,488</u>	<u>50,006,884</u>
<u>Deferred outflow of resources</u>		
Deferred charges on refunding		<u>183,262</u>
<u>Liabilities</u>		
Accounts payable	\$ 267,609	4,372
Deposits payable	5,376,392	
Due to bondholders	3,479,487	
Interest payable		1,386,088
Long-term liabilities:		
Due in one year		5,785,000
Due in more than one year		35,027,519
Total Liabilities	<u>\$ 9,123,488</u>	<u>42,202,979</u>
<u>Net Position</u>		
Held in trust for other purposes		<u>7,987,167</u>
Total Net Position		<u>\$ 7,987,167</u>

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2014**

	Private Purpose Trust Fund
	Successor Agency of the Former CDC
<u>Additions</u>	
Taxes	\$ 8,466,135
Interest and change in fair value of investments	25,902
Contributions from other governments	3,132,320
Total Additions	11,624,357
<u>Deductions</u>	
Administrative expenses	293,650
Residual payment	
Interest expense	1,721,879
Depreciation expense	2,736,015
Total Deductions	4,751,544
Changes in Net Position	6,872,813
Net Position - Beginning of the Year	1,114,354
Net Position - End of the Year	\$ 7,987,167

See Accompanying Notes to Basic Financial Statements.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies**

**A. Reporting Entity**

The City of Escondido (City) was incorporated in 1888 and operates under a Council/Manager form of government. The Council is composed of five members. As required by generally accepted accounting principles, the financial statements present the government and its component units for which the government is considered financially accountable. The component units discussed below are included in the reporting entity because of their operational or financial relationships with the City.

Blended Component Units

The following blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each blended component unit as described below has a June 30 year end.

*Escondido Vehicle Parking District*

The Escondido Vehicle Parking District (District) was established in 1962 for the purpose of acquiring and improving parking lots in Escondido. The City Council acts as the District's governing board and exerts significant influence over its operations. The funds of the District have been included in the governmental activities of the financial statements. Separate financial statements are not prepared for this blended component unit.

*Escondido Joint Powers Financing Authority*

The City and Commission formed the Escondido Joint Powers Financing Authority (Authority). The Authority was established in 1991 for the purpose of providing for the financing of public capital improvements for the Members through the issuance of bonds by the Authority and the leasing of the public capital improvements to the members and/or the acquisition of obligations pursuant to which public capital improvements are financed by or for the benefit of the members.

The City Council acts as the Authority's governing board and exerts significant influence over its operations. The funds of the Authority have been included in the governmental activities of the financial statements. Separate financial statements are not prepared for this blended component unit.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

Discretely Presented Component Units

*California Center for the Arts, Escondido Foundation*

The California Center for the Arts, Escondido Foundation (Foundation) was established in 1988 as a nonprofit public benefit corporation to provide a variety of visual and performing arts events, to encourage other cultural activities, and to provide a venue for local events and presentations. The Foundation has a separate governing board. It is included as a discretely presented component unit because the Foundation is financially dependent on the City for its management fee, facility and additional funding as needed based on annual operations. Separate financial statements of the Foundation can be obtained at:

California Center for the Arts, Escondido Foundation  
340 North Escondido Boulevard  
Escondido, California 92025

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements and eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Fiduciary funds have no measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are not recognized until paid.

Property taxes, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures not paid through other funds are paid from this fund.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

The Successor Agency Housing Special Revenue Fund was established to account for the housing activities of the dissolved Community Development Commission. The Successor Agency provides the resources for the activities of this fund that were approved by the California Department of Finance on the Successor Agency ROPS schedules. Other resources are received through loan repayments.

The City reports the following major proprietary funds:

The Water Enterprise Fund is used to account for the financial activity of the City's water utility. The costs of providing these services to the general public are financed or recovered primarily through user charges.

The Wastewater Enterprise Fund is used to account for the financial activity of the City's sewer utility. The costs of providing these services to the general public are financed or recovered primarily through user charges.

Additionally, the City reports the following non-major fund types:

**Governmental Funds**

The Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted or otherwise designated for specific purposes.

The Debt Service Funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

The Capital Projects Funds are used to account for financial resources used for the acquisition or construction of major capital facilities.

The Permanent Funds are used to account for resources that are legally restricted, to the extent that only earnings and not principal, may be used for purposes that support the City's programs.

**Proprietary Funds**

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. Currently both enterprise funds of the City are reported as major funds.

The Internal Service Funds are utilized to finance and account for activities involved in rendering services to departments within the City. Costs of services are accumulated in these funds and charged to user departments as such costs are incurred. Services provided by these funds include insurance, building maintenance, equipment maintenance and central services.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

Fiduciary Funds

Fiduciary Fund financial statements include a statement of net position and statement of changes in fiduciary net position. The City's fiduciary funds include agency and private-purpose trust funds.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations, and therefore, do not have a measurement focus. Private-purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The City reports the following fiduciary funds which are excluded from the government-wide financial statements:

The Agency Funds are used to account for money and property held by the City as trustee or custodian. These funds include refundable deposits and also account for the collection of special assessments levied on various assessment districts for the payment of debt service on no commitment debt.

The Private-Purpose Trust Fund accounts for the assets and liabilities of the former Commission and is allocated revenue to pay estimated installment payments of enforceable obligations until obligations of the former Commission are paid in full and assets have been liquidated.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to members, customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Enterprise Fund, the Wastewater Enterprise Fund, and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Position or Equities**

Cash and Investments

Investments are reported in the accompanying financial statements at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income, earned by the pooled investments, is allocated to the various funds based on each fund's average cash and investment balance.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents. Cash invested in the City's cash management pool is also considered to be cash equivalents.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The amounts recorded as a receivable due from other governments include amounts collected or provided by Federal, State and County governments and not remitted to the City as of June 30, 2014.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of San Diego (County) bills and collects the property taxes and remits them to the City in installments during the year. City property tax revenues are recognized when levied to the extent that they result in current receivables.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax value base no more than 2% per year. The City receives a share of this basic levy proportionate to what it received in the 1976 to 1978 period.

Inventories

Inventories within the various fund types consist of fuel, supplies and equipment valued at cost, which approximates market, on the first-in, first-out basis. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Land Held for Resale

Land held for resale is valued at lower of cost or market. The reported amount is equally offset by nonspendable fund balance, which indicates that it does not constitute available spendable resources. The land held for resale primarily consists of lots in two mobile home parks that the City owns and is holding until sold. It is anticipated that these lots could take several years to sell.

Cash and Investments with Fiscal Agents

The City has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions and indentures are generally more restrictive than the City's investment policy.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The City utilizes a capitalization threshold of \$5,000 - \$10,000 depending on asset type.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	5-40 years
Buildings	30-40 years
Machinery and equipment	5-30 years
Motorized vehicles	5-15 years
Infrastructure	30-50 years
Golf course	30 years
Water system	40 years
Electrical system	40 years
Sewer system	40 years
Recycled water system	40 years

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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Employee Leave Benefits

Depending upon length of employment, City employees earn 12 to 27 vacation days a year. Sick leave is accrued at the rate of 12 days per year except for Fire Safety which earns six twenty-four hour shifts. Employees can carry forward to subsequent years two to three years worth of earned but unused vacation leave benefits depending on employee group. Upon termination, the City is obligated to compensate employees for all earned but unused vacation days. The earned but unused sick leave benefits are not payable in the event of employee termination. These benefits are considered to be contingent liabilities subject to the continuation of the employee relationship. Such sick leave benefits are therefore not recorded as liabilities in the accompanying financial statements.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

In the government-wide financial statements, a liability is accrued for all earned but unused vacation leave benefits relating to the operations of the funds. This liability will be liquidated as either additional cash payments in the event of employee termination or as part of budgeted salary expenditures if used by employees as compensated leave time while still employed by the City. In the fund financial statements, governmental funds accrue current liabilities for material vacation leave benefits due on demand to governmental fund employees that have terminated prior to year-end. Non-current amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the 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 fund type statement of net position. Bond premiums and discounts, as well as gains or losses on refunding, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Gains or losses on bond refunding are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Debt issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Claims and Judgments

The City records a liability for litigation, judgments and claims when it is probable that an asset has been impaired or a liability has been incurred prior to year-end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated. This liability is recorded in the internal service funds, which account for the City's self-insurance activities.

Fund Equity

In the fund financial statements, governmental funds report the following fund balance classification:

*Nonspendable* 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.

*Restricted* include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**1: Summary of Significant Accounting Policies (Continued)**

*Committed* include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest authority, City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is Council resolution.

*Assigned* include amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed. The Administrative Services Director is authorized to assign amounts to a specific purpose, which was established by the governing body by resolution.

*Unassigned* include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

Included in the General Fund’s committed fund balance, the City Council has approved an emergency reserve stabilization arrangement to be used for one-time unanticipated expenditure requirements and local disasters. At June 30, 2014, the balance totaled \$17,319,659.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted amounts to be used first, then unrestricted. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, they are considered to be spent in the order as follows: committed, assigned and then unassigned.

Use of Estimates

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

**2: Stewardship, Compliance and Accountability**

Excess of Expenditures Over Appropriations

The following individual fund exceeded its expenditures budget:

Fund	Type of Fund	Amount Over Budget
HOME	Special Revenue	\$ 50,603
Golf Course	Debt Service	157

These expenditures were funded with a combination of excess revenues over expenditures during the current fiscal year and by the available fund balance.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**2: Stewardship, Compliance and Accountability (Continued)**

Deficit Fund Equity

The following funds reported a deficit fund balance as of June 30, 2014:

Fund	Deficit
Community Development Block Grant	\$ 252,431
Law Enforcement	261,652
Vehicle Parking District	624,380

The following funds reported a deficit net position as of June 30, 2014:

Fund	Deficit
Workers' Compensation	\$ 1,713,673
General Liability Self-Insurance	1,713,762

These deficits are expected to be eliminated with future revenues from reimbursements and transfers.

**3: Cash and Investments**

Cash and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Governmental Activities	
Cash and investments	\$ 67,566,256
Cash and investments held by fiscal agent	673,137
Business-type Activities	
Cash and investments	54,199,902
Cash and investments held by fiscal agent	57,823,934
Component Unit	
Cash and investments	1,555,673
Fiduciary Funds:	
Cash and investments	15,652,266
Cash and investments held by fiscal agent	1,904,189
Total cash and investments	\$ 199,375,357

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**3: Cash and Investments (Continued)**

Cash and investments as of June 30, 2014, consist of the following:

Cash on hand	\$	16,721
Deposits with financial institutions		9,760,523
Investments		189,598,113
Total cash and investments	\$	199,375,357

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 by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee (i.e. fiscal agent) 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. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

Investment types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	*Maximum Percentage of Portfolio	*Maximum Investment in One Issuer
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptance	Yes	180 days	20%	10%
Commercial Paper	Yes	180 days	15%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	30%	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County pooled Investment Funds	Yes	N/A	30%	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	30%	None

\*Based on state law requirements or investment policy requirements, whichever is more restrictive.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**3: Cash and Investments (Continued)**

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee (i.e. fiscal agent) are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are generally authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>*Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	365 days	None	None
Banker's Acceptance	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	None	None	None
Investment Contracts	30 years	None	None
State or Municipal Obligations	None	None	None
State Pooled Investment Fund	None	None	None



**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**3: Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Maturity (in Months)			
	Total	18 Months or Less	18 to 42 Months	42 to 60 Months
U.S. Treasury Notes	\$ 3,518,800	\$ 3,518,800	\$	\$
Federal Agency Securities	87,509,416	27,315,890	44,816,469	15,377,057
Money Market Funds	10,925,784	10,925,784		
Negotiable Certificates of Deposit	2,980,479	1,242,212	988,850	749,417
State Investment Pool (LAIF)	24,262,374	24,262,374		
Subtotal	129,196,853	67,265,060	45,805,319	16,126,474
Held by fiscal agent:				
Federal Agency Securities	5,403,585	5,403,585		
Money Market Funds	9,984,231	9,984,231		
State Investment Pool (LAIF)	45,013,444	45,013,444		
Subtotal	60,401,260	60,401,260		
Total	\$ 189,598,113	\$ 127,666,320	\$ 45,805,319	\$ 16,126,474

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 yearend for each investment type.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**3: Cash and Investments (Continued)**

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				AA+	Not Rated
U.S. Treasury Notes	\$ 3,518,800	N/A	\$ 3,518,800	\$	\$
Federal Agency Securities	87,509,416	N/A		87,509,416	
Money Market Funds	10,925,784	N/A	10,925,784		
Negotiable Certificates of Deposit	2,980,479				2,980,479
State Investment Pool (LAIF)	24,262,374	N/A			24,262,374
Held by fiscal agent:					
Federal Agency Securities	5,403,585	N/A		5,403,585	
Money Market Funds	9,984,231	N/A			9,984,231
State Investment Pool (LAIF)	45,013,444	N/A			45,013,444
<b>Total</b>	<b>\$ 189,598,113</b>		<b>\$ 14,444,584</b>	<b>\$ 92,913,001</b>	<b>\$ 82,240,528</b>

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
Federal National Mortgage Association	Federal agency securities	\$ 27,799,719
Federal Home Loan Bank	Federal agency securities	28,079,383
Federal Home Loan Mortgage Corp.	Federal agency securities	26,027,720
Federal Farm Credit Bank	Federal agency securities	11,006,179

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2014, all of the City's deposits in excess of the federal depository insurance limit were held

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**3: Cash and Investments (Continued)**

in collateralized accounts. For investments identified herein as held by bond trustee, the bond trustee provides the City with investment options that are authorized under the terms of the applicable trust agreement, acquires the investment as directed, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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. LAIF is not rated.

**4: Receivables and Allowances for Uncollectible Receivables**

All receivables are shown net of an allowance for uncollectibles which at June 30, 2014 is as follows:

Fund	Allowance Amount
General Fund	\$ 1,816,564
Water Enterprise Fund	35,108

The General Fund allowance is mainly for paramedic and DUI cost recovery activities.

**5: Loans Receivable**

The City and Housing Successor Agency engage in programs designed to encourage construction and improvement in low-to-moderate income housing and other projects. Under these programs, loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's or Housing Successor Agency's terms.

At June 30, 2014, the loans receivable was reported in the governmental and proprietary fund types as follows:

Governmental Funds	\$ 54,354,015
Proprietary Funds	703,580
Total loans receivable	\$ 55,057,595

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**5: Loans Receivable (Continued)**

The loans at June 30, 2014, consisted of the following:

City of Escondido	
HOME grant fund loans	\$ 13,910,296
National Golf Operations	259,297
Successor Agency loan	974,044
Various loans	310,298
Successor Agency Housing Special Revenue Fund	
Loans given to developers and non-profits	28,036,370
Mobile home loan program	3,284,297
First-time homebuyer program	3,665,121
Successor Agency loan	3,399,292
HOME loans	<u>515,000</u>
Total loans receivable	<u>\$ 54,354,015</u>

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**6: Capital Assets**

A summary of changes in capital asset activity for the City's governmental and business type activities for the year ended June 30, 2014, is as follows:

Governmental-Activities:

	Balance at July 1, 2013	Transfers of CIP	Contributions Between Funds	Additions	Deletions	Balance at June 30, 2014
Capital assets, not being depreciated:						
Art and historical treasures	\$ 9,532,194	\$	\$	\$	\$	\$ 9,532,194
Land	46,482,981				576,857	45,906,124
Construction in progress	8,263,440	(4,773,957)		4,686,394		8,175,877
Total capital assets, not being depreciated	<u>64,278,615</u>	<u>(4,773,957)</u>		<u>4,686,394</u>	<u>576,857</u>	<u>63,614,195</u>
Capital assets, being depreciated:						
Land improvements	36,248,863	505,030				36,753,893
Buildings	135,682,521	1,079,934				136,762,455
Machinery and equipment	29,135,617	281,041	68,598	1,259,330	722,360	30,022,226
Motorized vehicles	17,667,577	1,305,884		1,853,744	247,809	20,579,396
Infrastructure	299,876,964	1,602,068	(225,738)	1,056,836		302,310,130
Golf course	4,326,835					4,326,835
Total capital assets, being depreciated	<u>522,938,377</u>	<u>4,773,957</u>	<u>(157,140)</u>	<u>4,169,910</u>	<u>970,169</u>	<u>530,754,935</u>
Less accumulated depreciation for:						
Land improvements	27,025,750			3,281,452		30,307,202
Buildings	39,766,586			3,574,422		43,341,008
Machinery and equipment	26,781,749			1,290,673	722,361	27,350,061
Motorized vehicles	13,674,870			1,747,998	247,808	15,175,060
Infrastructure	186,659,898			4,750,616		191,410,514
Golf course	1,537,572			144,272		1,681,844
Total accumulated depreciation	<u>295,446,425</u>			<u>14,789,433</u>	<u>970,169</u>	<u>309,265,689</u>
Total capital assets being depreciated, net	<u>227,491,952</u>	<u>4,773,957</u>	<u>(157,140)</u>	<u>(10,619,523)</u>		<u>221,489,246</u>
Governmental activities capital assets, net	<u>\$ 291,770,567</u>	<u>\$</u>	<u>\$ (157,140)</u>	<u>\$ (5,933,129)</u>	<u>\$ 576,857</u>	<u>\$ 285,103,441</u>

Construction in progress in the governmental activities consists primarily of additions to infrastructure, parks, and the design of the library expansion project.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**6: Capital Assets (Continued)**

Business-type Activities:

	Balance at July 1, 2013	Transfers of CIP	Contributions Between Funds	Additions	Deletions	Balance at June 30, 2014
Capital assets not being depreciated:						
Land	\$ 1,800,524	\$ 1,067,500	\$	\$	\$	\$ 2,868,024
Construction in progress	9,314,075	(2,636,966)		14,539,452		21,216,561
Total Capital Assets Not being Depreciated	11,114,599	(1,569,466)		14,539,452		24,084,585
Capital assets being depreciated:						
Land improvements	946,475	138,080			121,268	963,287
Buildings	24,481,218					24,481,218
Machinery and equipment	6,213,179	1,157,231	(68,597)	131,849	23,245	7,410,417
Water system	122,171,624	234,338	189,587	372,612		122,968,161
Electrical system	3,609,179					3,609,179
Sewer system	158,965,338	39,817	36,150	6,831		159,048,136
Recycled water system	24,163,391					24,163,391
Total capital assets being depreciated	340,550,404	1,569,466	157,140	511,292	144,513	342,643,789
Less accumulated depreciation for:						
Land improvements	186,202			31,804	30,319	187,687
Buildings	17,391,625			583,016		17,974,641
Machinery and equipment	4,159,980			608,651	23,245	4,745,386
Water system	34,641,276			2,976,843		37,618,119
Electrical system	3,038,832			49,270		3,088,102
Sewer system	51,951,748			3,931,143		55,882,891
Recycled water system	5,578,424			606,883		6,185,307
Total accumulated depreciation	116,948,087			8,787,610	53,564	125,682,133
Total capital assets, being depreciated, net	223,602,317	1,569,466	157,140	(8,276,318)	90,949	216,961,656
Business-type activities capital assets, net	<u>\$ 234,716,916</u>	<u>\$</u>	<u>\$ 157,140</u>	<u>\$ 6,263,134</u>	<u>\$ 90,949</u>	<u>\$ 241,046,241</u>

Business-type construction in progress consists primarily of expansion of the wastewater treatment plant, construction of a reclamation distribution system and water and sewer line installation projects.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**6: Capital Assets (Continued)**

Component Unit:

	Balance at July 1, 2013	Adjustments*	Additions	Deletions	Balance at June 30, 2014
Capital assets being depreciated:					
Leasehold improvements	\$ 1,989	\$	\$	\$	\$ 1,989
Machinery and equipment	640,551	74,890	74,648	12,104	777,985
Total capital assets being depreciated	642,540	74,890	74,648	12,104	779,974
Less accumulated depreciation for:					
Leasehold improvements	1,989				1,989
Machinery and equipment	626,389	74,890	16,301	12,104	705,476
Total accumulated depreciation	628,378	74,890	16,301	12,104	707,465
Total capital assets, being depreciated, net	14,162		58,347		72,509
Component unit capital assets, net	\$ 14,162	\$	\$ 58,347	\$	\$ 72,509

\* During the year, the Foundation performed a physical inventory and determined that \$74,890 of equipment was in the possession of the Foundation but not recorded as a capital asset.

Depreciation Expense:

Depreciation expense was charged to the following functions:

	Governmental Activities	Business Type- Activities	Component Unit
General Government	\$ 909,900	\$	\$
Public Safety	3,778,946		
Public Works	6,868,714		
Community Services	1,110,553		
Community Development	111,952		
Water		3,529,669	
Wastewater		5,257,941	
Capital Assets held by governments internal service funds are charged to the various functions based on their usage of the assets	2,009,368		
California Center for the Arts, Escondido Foundation			16,301
	\$ 14,789,433	\$ 8,787,610	\$ 16,301

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**7: Interfund Receivable, Payable and Transfers**

Due to/from other funds

	Due To Other Funds	
	Nonmajor Governmental Funds	Totals
<u>Due from other Funds</u>		
General Fund	\$ 1,158,720	\$ 1,158,720
Total	\$ 1,158,720	\$ 1,158,720

The \$1,158,720 due from Nonmajor Governmental Funds to the General Fund are short term borrowings due to negative cash balances at the end of this fiscal year.

Advances to/from other funds

	Advances From:		
	General Fund	Nonmajor Governmental Fund	Total
<u>Advance To:</u>			
General Fund	\$	\$ 159,250	\$ 159,250
Nonmajor Governmental Funds	330,000	200,000	530,000
Total	\$ 330,000	\$ 359,250	\$ 689,250

The advances were primarily used for the following:

The Escondido Vehicle Parking District entered into agreements with the General Fund for the purchase of the downtown parking lots. The outstanding balance was \$159,250 at June 30, 2014.

The Public Facilities Capital Project fund entered into an agreement with the General Fund for an advance to reconstruct Fire Station #4. At June 30, 2014, the amount of \$330,000 remained outstanding.

The Parks and Recreation Special Revenue fund entered into an agreement with the Street Improvement Capital Projects fund in the amount of \$200,000.



**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**7: Interfund Receivable, Payable and Transfers (Continued)**

Interfund Transfers

Transfer Out:	Transfers In:				Total
	General Fund	Successor Agency Housing	Nonmajor Governmental	Internal Service	
General Fund	\$	\$	\$ 1,679,037	\$ 2,151,000	\$ 3,830,037
Nonmajor Governmental	2,154,779	60,000	667,327	22,600	2,904,706
Internal Service Funds	99,100		350,000		449,100
Enterprise:					
Wastewater	25,000			100,000	125,000
<b>Total</b>	<b>\$ 2,278,879</b>	<b>\$ 60,000</b>	<b>\$ 2,696,364</b>	<b>\$ 2,273,600</b>	<b>\$ 7,308,843</b>

Transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**8: Long-Term Liabilities**

Changes in long-term liabilities for Governmental Activities as of June 30, 2014, are as follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Due Within One Year	Due Beyond One Year
Employee Leave Benefits Payable	\$ 6,974,713	\$ 5,747,490	\$ 5,466,358	\$ 7,255,845	\$ 725,585	\$ 6,530,260
Claims Payable	13,836,057	4,563,880	3,849,378	14,550,559	2,910,112	11,640,447
Loans Payable	994,925		106,559	888,366	109,588	778,778
1993 Taxable Certificates of Participation	1,240,000		595,000	645,000	645,000	
2006 Public Safety Facilities GO Bonds	75,665,000		1,700,000	73,965,000	1,785,000	72,180,000
2013A Lease Revenue Bonds	4,830,000		205,000	4,625,000	210,000	4,415,000
<b>Total</b>	<b>\$ 103,540,695</b>	<b>\$ 10,311,370</b>	<b>\$ 11,922,295</b>	<b>101,929,770</b>	<b>\$ 6,385,285</b>	<b>\$ 95,544,485</b>
Unamortized Bond Premium				673,440		
Unamortized Bond Discount				(9,157)		
<b>Total</b>				<b>\$ 102,594,053</b>		

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**8: Long-Term Liabilities (Continued)**

Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1. The balance at June 30, 2014, is \$7,255,845. This liability will be paid in future years from future resources primarily from the General Fund.

Claims Payable

The balance of claims payable at June 30, 2014, is \$14,550,559. For more information, see Note 10.

Loans Payable

In 2004, the City was granted an energy conservation loan from the California Energy Commission to fund various energy conservation projects. The term of the loan is 15 years with an annual interest rate of 3.95%. The outstanding balance at June 30, 2014, is \$727,227.

In 2011, the City was granted a loan from the San Diego Gas and Electric Company to fund various energy conservation projects. The term of the loan is 8 years of monthly installment payments which accrue no interest. The outstanding balance at June 30, 2014, is \$161,139.

Certificates of Participation

In December 1993, the City of Escondido issued \$6,775,000 taxable Certificates of Participation to provide financing for the construction of an 18-hole golf course. The principal is due annually in amounts ranging from \$160,000 to \$645,000 on September 1 of each year commencing with 1995 through the year 2014. Interest is payable semiannually on March 1 and September 1 of each year commencing September 1, 1994, at rates ranging from 5.5% to 8.4%. The reserves are fully funded. The outstanding balance at June 30, 2014, is \$645,000.

General Obligation Bonds

On August 1, 2006, the City issued General Obligation Bonds, election of 2004, Series A amounting to \$84,350,000 to construct, upgrade, and acquire land for City fire stations, an emergency response training center, and a combined police and fire headquarters facility. The bonds mature serially on September 1, beginning 2007 through 2036 in amounts ranging from \$1,170,000 to \$5,225,000 and pay interest at rates varying from 3.55% to 4.75%. Interest is payable semiannually on March 1 and September 1 of each year, commencing on March 1, 2007. No reserve fund is required. The outstanding balance at June 30, 2014, is \$73,965,000. Unamortized bond premium is \$673,440 at June 30, 2014.

Lease Revenue Bonds

In March 2013, the City of Escondido issued \$4,830,000 in Lease Revenue Bonds to currently refund the outstanding Escondido Joint Powers Financing Authority 2001 Lease Revenue Bonds and to pay the costs incurred in connection with the issuance of the Escondido Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2013A. The principal is due annually on October 1 in amounts ranging from \$205,000 to 355,000, commencing 2013 and ending 2030. Interest is payable semi-annually on April 1 and October 1 of each year commencing October 1, 2013, at rates ranging from 2.00% to 4.00%. At June 30, 2014, the outstanding balance of these bonds was \$4,625,000. Unamortized bond discount was \$9,157 at June 30, 2014.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**8: Long-Term Liabilities (Continued)**

Debt Service Requirements to Maturity - Governmental Activities

The annual requirements to amortize outstanding long-term debt of the City's Governmental Activities through maturity, excluding amounts for employee leave benefits payable, claims payable and certain loans payable are as follows (expressed in thousands of dollars):

Year Ending June 30	Certificates of Participation		Lease Revenue Bonds		General Obligation Bonds		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 645	\$ 27	\$ 210	\$ 149	\$ 1,785	\$ 3,418	\$ 110	\$ 24
2016			215	145	1,875	3,326	113	21
2017			220	140	1,970	3,230	116	18
2018			230	133	2,065	3,140	118	14
2019			235	126	2,170	3,054	110	15
2020-2024			1,295	516	12,595	13,543	321	21
2025-2029			1,525	283	16,070	10,248		
2030-2034			695	28	20,500	6,072		
2035-2038					14,935	1,087		
<b>Total Debt Service Payments</b>	<b>\$ 645</b>	<b>\$ 27</b>	<b>\$ 4,625</b>	<b>\$ 1,520</b>	<b>\$ 73,965</b>	<b>\$ 47,118</b>	<b>\$ 888</b>	<b>\$ 113</b>

Changes in long-term liabilities for Business-type Activities as of June 30, 2014, are as follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Due Within One Year	Due Beyond One Year
Connection rights payable	\$ 13,393,813	\$	\$ 41,990	\$ 13,351,823	\$	\$ 13,351,823
Employee leave benefits payable	1,164,942	764,210	816,813	1,112,339	111,234	1,001,105
2007 Water Revenue COP	28,115,000		530,000	27,585,000	550,000	27,035,000
2012 Water Revenue Revenue Bond	31,375,000		645,000	30,730,000	475,000	30,255,000
2004A Wastewater COP	21,060,000		1,140,000	19,920,000	1,180,000	18,740,000
2004B Wastewater COP	8,165,000		445,000	7,720,000	470,000	7,250,000
2012 Wastewater Revenue Bond	27,260,000		140,000	27,120,000	145,000	26,975,000
Loans payable	22,585,446		2,136,746	20,448,700	2,143,933	18,304,767
<b>Total</b>	<b>\$ 153,119,201</b>	<b>\$ 764,210</b>	<b>\$ 5,895,549</b>	<b>147,987,862</b>	<b>\$ 5,075,167</b>	<b>\$ 142,912,695</b>
Less:						
Unamortized bond premium				3,482,875		
Unamortized bond discount				(80,558)		
<b>Total</b>				<b>\$ 151,390,179</b>		

Connection Rights Payable

In 1982, the City raised funds for water and sewer improvements by selling in advance rights to connect to the utility system. The holders of those rights could sell or transfer those rights to others. The value of the rights resulted from the ability of the holder to redeem the rights to the City in order

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**8: Long-Term Liabilities (Continued)**

to connect to the system. The amounts collected represent connection fees collected in advance of the connection. The amounts collected are recorded as a liability until earned at the time of connection.

The purchase price for sewer connection rights sold was \$1,500 per right. Per the contract, the rights increased in value at 10% per year until May 31, 2007. As of that date, a sewer right was valued at \$21,872. The purchase price for water connection rights sold was \$900 per right. Per the contract, the rights increased in value at 10% per year until July 1, 1993. At that time, each right was valued at \$3,230.

There was no limit to the number of rights purchased under a contract or the number of contracts an individual might purchase. Both contracts allowed several options to the purchaser. These options were: 1) The rights could be used by the purchaser at the time of pulling building permits, thus waiving the current fee being charged by the Building Department; 2) if the owner of the rights sold the property for which the rights were originally purchased, the rights could be transferred to the new owner; 3) the last option was to turn in the right to the City of Escondido for the purpose of resale on a "first come, first served" basis. Resales are determined monthly and paid based on receipts from current connection fees on building permits.

Interest on connection rights represents the increase in the obligation of the City to the holders of the rights as a result of rates of increase stipulated in the City's agreement with the holders of the rights. The balance at June 30, 2014, is \$13,351,823.

Employee Leave Benefits Payable

The City's policies relating to employee leave benefits are described in Note 1 of the Notes to Financial Statements. This liability will be paid in future years from future resources. The balance at June 30, 2014, is \$1,112,339

Revenue Certificates of Participation

In September 2007, the City issued \$30,440,000 in Revenue Certificates of Participation to finance certain capital projects and to advance refund \$12,450,000 of outstanding Revenue Certificates of Participation, series 2000A, which were originally issued to finance the cost of construction of certain replacements to water lines and other capital improvements to the water system. The principal is due annually on September 1 in amounts ranging from \$430,000 to \$990,000, commencing 2008 and ending 2025 with interest at rates varying from 3.5% to 4.375%. In addition, \$5,775,000 and \$13,325,000 term certificates are due September 1, 2030 and September 2037, respectively.

The \$5,775,000 term certificates pay interest at 5.0% and the \$13,325,000 term certificates pay interest at 4.75%. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on March 1, 2008. The certificates maturing on or after September 1, 2018, are subject to optional prepayment prior to their respective maturities, as a whole or in part on any date in the order of maturity as directed by the City in a Written Request provided to the Trustee at least 45 days prior to the prepayment date and by lot within each maturity in integral multiples of \$5,000, on or after September 1, 2007, from amounts prepaid by the City pursuant to the Installment Purchase Agreement at a Prepayment Price equal to 100% of the principal amount of such Certificates to be prepaid. Additionally, the term certificates maturing on September 1, 2030 and 2037 are subject to mandatory prepayment in part (by lot) on each September 1 on and after September 1, 2026 and 2031,

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**8: Long-Term Liabilities (Continued)**

respectively, in integral multiple of \$5,000 at a prepayment price as described in the Certificate covenants. The outstanding balance at June 30, 2014, is \$27,585,000. Unamortized bond premium is \$191,877 at June 30, 2014.

Certificates of Participation

In December 2004, the City of Escondido issued \$28,805,000 Certificates of Participation to provide funds for a refunding of City of Escondido 1996 Wastewater Refunding Project COP. The 1996 Certificates of Participation were used to refund the City's 1972 Sewer Revenue Bonds, Series A, which were used for the acquisition of Daley Ranch and related water and sewer connection rights. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements.

The 2004A refunding COP bears interest rates between 2.50% and 4.75% and are issued under a trust agreement dated December 1, 2004 with the Bank of New York Trust Company as trustee. The refunding COP mature between September 1, 2005 through September 1, 2026, in the amounts ranging from \$725,000 to \$1,975,000. At June 30, 2013, the reserve was fully funded. The outstanding balance at June 30, 2014, is \$19,920,000. Unamortized bond discount and loss on refunding are \$80,558 and \$1,646,874, respectively, at June 30, 2014.

In December 2004, the City of Escondido issued \$10,775,000 Certificates of Participation to provide funds for certain capital improvements to the City's Wastewater System. The COP were executed and delivered concurrently with the City's 2004A Certificates of Participation.

The 2004B COP bears interest at rates between 3.31% and 4.18%. MBIA Insurance Corporation was the issuer of the COP and has simultaneously issued a financial guaranty insurance policy with the COP. The rate covenant requirement for the COP is net revenues equal to one hundred fifteen percent (115%) of the debt service for each fiscal year. At June 30, 2014, the reserve was fully funded. The outstanding balance at June 30, 2014, is \$7,720,000.

Revenue Bonds

In March 2012, the City issued \$27,390,000 in Revenue Wastewater System Financing Bonds to finance certain capital projects and to current refund a portion of the \$9,830,000 of outstanding Water Revenue Certificates of Participation, series 2000. The principal for the \$4,070,000 serial bonds is due annually on September 1 in amounts ranging from \$130,000 to \$1,410,000 commencing 2013 and ending 2031 with interest at rates varying from 1.0% to 4.0%. In addition, Term bonds are due in the amounts of \$2,375,000, \$2,615,000, \$3,000,000, \$5,075,000 and \$10,225,000 on September 1, 2028, 2030, 2033, 2036, and 2041 respectively. The term certificates pay interest at rates of 4.25% and 5.0%, and require sinking fund deposits or principal installment payments due annually on September 1 in amounts ranging from \$475,000 to \$2,255,000, commencing 2027 and ending 2041. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2013. Bonds with stated maturities on or after September 1, 2022 will be subject to optional redemption prior to their respective stated maturities, as a whole or in part, on any date as directed by the City provided at least a 30 day notice is mailed by the Trustee to bondholders, and by lot within each maturity in integral multiples of \$5,000, on or after

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**8: Long-Term Liabilities (Continued)**

March 1, 2022 at a price without premium, equal to the principal amount plus accrued interest to the redemption date. Additionally, the term certificates, maturing on September 1, 2028, 2030, 2033, 2036 and 2041 are subject to mandatory sinking fund redemption in part on each September 1, on and after September 1, 2027 2029, 2032, 2034, and 2034 respectively, in integral multiples of \$5,000, at a redemption price without premium, equal to the principal amount plus accrued interest to the redemption date, in accordance with the schedules contained in the covenants. The rate covenant requires net revenues during each Fiscal Year to be sufficient to equal 115% of the Debt Service payable in such Fiscal Year. The outstanding balance at June 30, 2014, is \$27,120,000. Unamortized bond premium is \$1,754,202 at June 30, 2014. A reserve fund is not established.

In March 2012, the City issued \$31,660,000 in Revenue Water System Financing Bonds to finance certain capital projects and to current refund a portion of the \$9,830,000 of outstanding Revenue Certificates of Participation, series 2000, and \$8,585,000 of outstanding Revenue Certificates of Participation, series 2002. The principal for the \$10,845,000 serial bonds is due annually on September 1 in amounts ranging from \$285,000 to \$815,000 commencing 2012 and ending 2029 with interest at rates varying from 1.0% to 4.0%. In addition, Term bonds are due in the amounts of \$2,485,000, \$4,025,000, and \$14,305,000 September 1, 2031, 2033 and 2041 respectively. Term certificates pay interest at 5.0%, and require sinking fund deposits or principal installment payments due annually on September 1 in amounts ranging from \$840,000 to \$3,840,000, commencing 2030 and ending 2041. Interest is payable semi-annually on March 1 and September 1 of each year, commencing on September 1, 2012. Bonds with stated maturities on or after September 1, 2022 will be subject to optional redemption prior to their respective stated maturities, as a whole or in part, on any date as directed by the City provided at least a 30 day notice is mailed by the Trustee to bondholders, and by lot within each maturity in integral multiples of \$5,000, on or after March 1, 2022 at a price without premium, equal to the principal amount plus accrued interest to the redemption date. Additionally, the term certificates, maturing on September 1, 2031, 2033, and 2041 are subject to mandatory sinking fund redemption in part on each September 1, on and after September 1, 2030, 2032, and 2038 respectively, in integral multiples of \$5,000, at a redemption price without premium, equal to the principal amount plus accrued interest to the redemption date, in accordance with the schedules contained in the covenants. The rate covenant requires net revenues during each Fiscal Year to be sufficient to equal 120% of the Debt Service payable in such Fiscal Year. The outstanding balance at June 30, 2014, is \$30,730,000. Unamortized bond premium and loss on refunding are \$1,536,796 and \$1,068,683, respectively, at June 30, 2014. A reserve fund is not established.

The 2012 refunding of the 2000A and 2002A Revenue Certificates of Participation resulted in a total economic gain (difference between the present values of the old and new debt service payments) to the city of \$1,702,728. The debt service payments representing the applicable portions of the 2012 Water and Wastewater Revenue Bond issues allocated to the refunding of the 2000A and 2002A Revenue Certificates of Participation exceed the remaining refunded debt service payments by a total of \$1,625,006.

Loans Payable

In 1999, the City of Escondido entered into an agreement with the State Water Resources Control Board (State Board) for a revolving fund loan program. The fund was established with a combination

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**8: Long-Term Liabilities (Continued)**

of Federal Clean Water Act funds and State matching funds. The proceeds were used to construct a Tertiary Treatment Facility for local wastewater and a delivery system for recycled water to a specified number of local users.

There are two phases in the Tertiary Treatment Facility project, and the loan was set up with sub-loan amounts for each phase. The City is obligated to repay the State Board on the Federal Disbursement Amount as principal and the Local Match Amount as interest on the loan. The Federal Disbursement portion is 83.33% and the Local Match portion is 16.67% of the total loan balance.

The first phase of the Tertiary Treatment Facility project was completed on May 25, 2001. During fiscal year 2002-03 the City increased the outstanding loan balance on the second phase of the projects by \$4,912,366. The project was completed on April 1, 2003.

The principal and interest on the first phase loan is due annually on May 25 in the amount of \$488,990 commencing 2002 and ending 2021. The principal and interest on the second phase loan is due annually on April 1 in the amount of \$1,728,852 commencing 2004 and ending 2023. The outstanding balance at June 30, 2014, is \$15,818,775.

In 2002, the City of Escondido entered into an agreement with the Department of Water Resources for a loan program. The funds were provided in part from the Federal Capitalization Grant for Drinking Water State Revolving Funds program. The proceeds were used to construct the Gravity Float Line Capital Project.

Repayment began on January 1, 2005, with semi-annual payments of \$65,459 with varying interest rates from 1.94% to 3.16%. The repayment ends on July 1, 2024. The outstanding balance at June 30, 2014, is \$1,151,284.

In 2005, the City entered into an agreement with the Department of Water Resources for a loan program. The funds were provided in part from the Federal Capitalization Grants for Clean Water State Revolving Funds program. The proceeds of \$1,572,306 were used for the HARRF Aeration Blower Replacement Project.

Principal and interest is due annually on December 30 in the amount of \$98,817 commencing 2005 and ending 2024. The project was completed as of June 30, 2006. The outstanding balance at June 30, 2014, is \$945,462.

In October 2009, the City of Escondido entered into an agreement with the State Department of Public Health for funding of construction of the Alexander Area Phase II Water Line. The agreement provided for the loan funding, up to a maximum loan amount of \$6,500,000, under the provisions of the California Safe Drinking Water State Revolving Fund Loan Program and the American Recovery and Reinvestment Act of 2009. A total of \$5,626,469 in project costs were incurred and submitted to the State for reimbursement. As per the terms of the agreement, fifty percent of each disbursement was forgiven by the State and not added to the principal amount of the loan. Upon project completion in October, 2012, final loan principal to be repaid amounted to \$2,813,324. Repayment began March 1, 2012, with semi-annual payments of Principal and Interest of \$89,816, including interest at the rate of 2.5017%. The repayment period ends on September 1, 2031. The outstanding balance at June 30, 2014, is \$2,533,179.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**8: Long-Term Liabilities (Continued)**

Debt Service Requirements to Maturity - Business-type Activities

The annual requirements to amortize outstanding long-term debt of the City's Business-type Activities as of June 30, 2014, excluding amounts for connection rights payable, employee leave benefits payable, deposits payable, loans payable, and discounts on Certificates of Participation are as follows (expressed in thousands of dollars):

Year Ending June 30	Water Revenue COP		Water Revenue Bond		Wastewater COP		Wastewater Revenue Bond		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 550	\$ 1,260	\$ 475	\$ 1,420	\$ 1,650	\$ 1,257	\$ 145	\$ 1,294	\$ 2,144	\$ 483
2016	565	1,238	495	1,408	1,720	1,188	150	1,290	2,151	476
2017	595	1,214	500	1,391	1,795	1,112	155	1,286	2,159	468
2018	620	1,190	520	1,370	1,875	1,031	160	1,280	2,167	461
2019	640	1,165	545	1,349	1,960	946	165	1,274	2,175	453
2020-2024	3,635	5,404	3,040	6,400	11,305	3,225	945	6,261	8,335	1,605
2025-2029	5,170	4,451	3,525	5,732	7,335	505	3,045	5,972	885	112
2030-2034	3,810	3,187	7,325	4,669			7,025	4,651	433	16
2035-2039	12,000	1,174	3,320	3,493			8,880	2,747		
2040-2042			10,985	842			6,450	494		
Total Debt Service	<u>\$ 27,585</u>	<u>\$ 20,283</u>	<u>\$ 30,730</u>	<u>\$ 28,074</u>	<u>\$ 27,640</u>	<u>\$ 9,264</u>	<u>\$ 27,120</u>	<u>\$ 26,549</u>	<u>\$ 20,449</u>	<u>\$ 4,074</u>

Pledged Revenue

The City and its component units have a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment.

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses, where required)	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service as a Percentage of Pledged Revenue
Charges for services	\$ 21,247,715	\$ 8,231,366	38.74%
Loan repayment revenue	1,034,046	1,033,884	99.98%



**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**8: Long-Term Liabilities (Continued)**

Rate Covenants

Under various debt issues, the City has agreed to set charges for water and wastewater services each year at rates sufficient to produce net revenues (after paying operating and maintenance expenses, excluding depreciation and interest) of at least 1.20 and 1.15 times the debt service on the bonds for that year for the Water and Wastewater Fund, respectively. For the year ended June 30, 2013, the City met this requirement, as follows:

	<u>Water</u>	<u>Wastewater</u>
Gross revenues, excluding intergovernmental revenue and developer contributions	\$ 55,938,951	\$ 30,728,710
Operating and maintenance expenses, excluding depreciation, interest and transfers	<u>45,217,477</u>	<u>20,202,469</u>
Net revenues	<u>10,721,474</u>	<u>10,526,241</u>
Amount required:		
Debt service payments	4,198,358	6,660,219
Coverage required	<u>1.20</u>	<u>1.15</u>
Amount required	<u>5,038,030</u>	<u>7,659,252</u>
Excess of net revenues	<u><u>\$ 5,683,444</u></u>	<u><u>\$ 2,866,989</u></u>

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**9: Fund Balance and Net Position**

**A. Fund Balance Classifications**

	General	Special Revenue Successor Agency Housing	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:				
Nonspendable				
Advances to other funds	\$ 159,250	\$	\$	\$ 159,250
Noncurrent loans receivable	58,440			58,440
Restricted for				
Housing & community development		42,450,762	16,847,129	59,297,891
Debt service			4,889,688	4,889,688
Capital projects			6,077,256	6,077,256
Street maintenance			7,777,934	7,777,934
Landscape and assessment districts			895,759	895,759
Other grants			11,541	11,541
Daley Ranch			722,728	722,728
Park development			1,553,166	1,553,166
Public Art			333,082	333,082
Committed to				
Reserves	17,319,659			17,319,659
Capital projects			1,614,467	1,614,467
Parks & Recreation			301,169	301,169
Daley Ranch restoration			18,504	18,504
Reidy Creek Golf Course			3,565	3,565
Ryan Trust			64,154	64,154
Hegy Trust			6,666	6,666
Assigned to				
Carryovers	99,420			99,420
Underground waivers	486,166			486,166
Library Trust	311,879			311,879
Capital projects			139,653	139,653
Unassigned	1,753,519		(1,149,954)	603,565
<b>Total Fund Balances</b>	<b>\$ 20,188,333</b>	<b>\$ 42,450,762</b>	<b>\$ 40,106,507</b>	<b>\$ 102,745,602</b>

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**10: Self-Insurance and Contingent Liabilities**

The City is a member of the San Diego Pooled Insurance Program Authority (SANDPIPA) which provides liability coverage to its members. As a member, the City carries a self-insured retention of \$500,000 and is insured through SANDPIPA from \$500,000 to \$2,500,000. In addition, SANDPIPA has purchased excess insurance coverage above \$2,500,000 to \$44,500,000 for all of its members, including the City.

The Board of Directors elects three members (including a President and Vice President) to the Executive Committee, which has the responsibility for overseeing all operations of SANDPIPA, including preparation and submission of the annual operating budget to the Board of Directors for its approval and modification, if deemed necessary.

Annual premiums are approved by the Board of Directors and are adjusted each year based on the following criteria:

- SANDPIPA's overall funding requirement
- Exposure base = general liability exposure – DE 6 payroll total for each member; plus automobile liability – the number of vehicles by major type for each member
- Loss experience = Each members' share of total incurred SANDPIPA layer losses for 5 years – 100% of paid losses and 20% of reserves; all losses capped at \$750,000
- Historical contributions = each members' historical contribution less dividends paid (percentage of total contributions of all members)

Assessments are recommended by the Underwriting Committee and approved by the Board of Directors and are determined by:

- Identifying the claims leading to the shortfall
- Amounts apportioned by the insurance year
- Each members' percentage applied to the overall assessment
- Assessment amount determined for program year
- Administrative fees and excess insurance are not included

If and when SANDPIPA is dissolved, the remaining assets, after all premiums and assessments have been paid and final disposition of all claims has been determined, will be distributed to members proportionate to each city's cash contributions made during the life of SANDPIPA. Until dissolution, however, no city has identifiable equity in SANDPIPA.

As of June 30, 2014, the City has recorded general self-insurance and workers' compensation liabilities of \$4,886,559 and \$9,664,000 respectively, for a total of \$14,550,559. The City is self-insured for workers' compensation up to \$500,000, but has purchased outside insurance coverage for individual claims in excess of \$500,000 up to a maximum of \$5,000,000 per claim through the CSAC Excess Insurance Authority, a risk management joint powers authority, with additional reinsurance of \$300,000,000 per occurrence. Only the probable amounts of loss as estimated by legal counsel and the City, including an estimate for incurred but not reported losses, have been recorded as liabilities in the accompanying financial statements.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**10: Self-Insurance and Contingent Liabilities (Continued)**

Increases and decreases in claim liabilities for changes in estimates are charged to expense in the period in which the estimates are adjusted. For the past three years, no settlements or claims payments have exceeded the amount of the applicable insurance coverage. For the past two fiscal years, the changes in the City's liability for claims payable are summarized as follows:

	Beginning Balance	Claims Incurred and Charges in Estimates	Less Claim Payments	Ending Balance
2011-12	\$ 11,217,509	\$ 6,104,192	\$ (2,085,644)	\$ 15,236,057
2012-13	15,236,057	1,189,086	(2,589,086)	13,836,057
2013-14	13,836,057	4,563,880	(3,849,378)	14,550,559

**11: Debt without Government Commitment**

Mortgage Revenue Bonds

The City has issued mortgage revenue bonds for low-income multifamily dwellings. These bonds are not included in the accompanying financial statements, as these bonds are payable solely from the related mortgage loans in which the bond proceeds were invested. They are as follows:

	Original Issue Amount	Balances at June 30, 2014	Due Date
Via Robles	\$ 9,500,000	\$ 6,900,000	November 15, 2036
Heritage Park	7,450,000	4,250,000	July 15, 2033
Total Mortgage Revenue Bonds	<u>\$ 16,950,000</u>	<u>\$ 11,150,000</u>	

Special Assessment Debt Without Government Commitment

In January 1998 the City issued \$4,435,000 in Limited Obligation Improvement Refunding Bonds for the Auto Parkway project. Interest payments commenced March 2, 1999 and are paid semiannually thereafter on September 2 and March 2 of each year. Principal payments are paid annually in amounts ranging from \$10,000 to \$190,000, commencing 1999 and ending 2008. In addition, \$2,505,000 of Term Bonds are due September 2, 2018. These bonds were issued to refund the Limited Obligation Bonds issued in July 1988 for Assessment District No. 86-1-R. On June 30, 2014, the 86-1-R Limited Obligation Improvement Refunding Bonds outstanding were \$1,425,000.

In August 1998, the City issued \$5,105,000 in Limited Obligation Refunding Bonds for Assessment District No. 98-1 (Rancho San Pasqual). Interest payments commenced March 2, 1999 and are paid

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**11: Debt without Government Commitment (Continued)**

semiannually thereafter on March 2 and September 2. Principal payments are paid annually in amounts ranging from \$80,000 to \$165,000 commencing September 2, 1999 and ending September 2, 2013. In addition, \$3,040,000 of Term Bonds are due September 2, 2026. These bonds were issued to refund the Limited Obligation Improvements Bonds issued in September 1995 for Rancho San Pasqual Assessment District No. 95-1. On June 30, 2014, the 98-1 Limited Obligation Refunding Bonds outstanding were \$3,040,000.

In October 2006, the City issued \$18,080,000 in Special Tax Bonds for Community Facility District No. 2006-01 (Eureka Ranch). Interest payments commenced March 1, 2007 and are paid semiannually thereafter on September 1 and March 1 of each year. Principal is paid annually in amounts ranging from \$330,000 to \$530,000, commencing September 1, 2009 and ending September 1, 2020. In addition, \$3,730,000 and \$9,300,000 of Term Bonds are due September 1, 2026 and 2036 respectively. The bonds were issued to finance various public improvements needed to develop property located within Community Facilities District No. 2006-01 (Eureka Ranch). On June 30, 2014, the 2006-01 Special Tax Bonds outstanding were \$16,200,000.

In July 2013, the City issued \$2,355,000 in Special Tax Refunding Bonds for Community Facility District No. 2000-01 (Hidden Trails). These bonds were issued to refund the 2001 Series Special Tax Bonds issued to finance various public improvements needed to develop property located within Community Facility District No. 2000-01 (Hidden Trails). The July 2013 issuance of the Special Tax Refunding Bonds fully defeased the 2001 Special Tax bonds. Interest payments for the Special Tax Refunding Bonds, Series 2013 commenced March 1, 2014, and are paid semiannually thereafter on September 1 and March 1 of each year. Principal payments are paid annually in amounts ranging from \$95,000 to \$185,000, commencing September 1, 2014 and ending September 1, 2031. On June 30, 2014, the outstanding principal of Community Facilities District No. 2000-01 ( Hidden Trails) Special Tax Refunding bonds, Series 2013 was \$2,355,000.

The bonds are secured by and payable from the proceeds of annual special assessment taxes levied and collected on the property within the Districts. The bonds are not general or special obligations of the City of Escondido. The City is not obligated in any manner for the payment of debt service in the event of default by the property owners but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, if appropriate. Neither the faith and credit nor taxing power of the City is pledged to the payment of these bonds. Accordingly, no liability for these bond issuances has been recorded and all debt service transactions have been recorded as an agency fund.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**12: City Employees Retirement Plans**

Defined Benefit Pension Plan (PERS)

Plan Description

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

Funding Policy

In September 2012, the California Public Employees' Pension Reform Act (PEPRA) was enacted. Under its provisions, employees hired on or after January 1, 2013, have a lower cost-pension benefit formula than employees hired before that date.

Tier 1 participants under the miscellaneous plan are required to contribute 8% of their annual covered salary, Tier 2 participants are required to contribute 7% of their annual covered salary, and Tier 3 participants are required to contribute 6.25% of their annual covered salary. The City previously made 7% of the 8% contributions required of Tier 1 City employees on their behalf and for their account, but effective between June 30, 2011 and August 7, 2011, the City no longer pays the employee portion for the miscellaneous plan.

Until January 2013 participants under the safety plan were required to contribute 9% of their annual covered salary of which the City paid all of the Police employees required contribution. The Fire employees paid their own required contribution. Beginning January 2013 Tier 1 and Tier 2 Police and Fire Employees are required to pay the full 9% of the required contribution and Tier 3 Police and Fire Employees are required to pay the full 12.25% of the required contribution.

Benefit provisions and all other requirements are established by state statute and City contract with employee bargaining groups and the employer contribution rate is established and may be amended by PERS.

Annual Pension Cost

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014, has been determined by an actuarial valuation of the plan as of June 30, 2012. The contribution rate indicated for the period is 25.150 % of payroll for the miscellaneous plan and 34.486% of payroll for the safety plan. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2013 to June 30, 2014.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**12: City Employees Retirement Plans (Continued)**

Three-Year Trend Information  
Annual Pension Cost (Employer Contribution)

Fiscal Year	Safety	Miscellaneous	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$ 6,850,763	\$ 6,821,337	100%	\$
6/30/2013	6,899,676	7,321,546	100%	
6/30/2014	7,662,810	8,144,874	100%	

**Funded Status and Funding Progress**

As of June 30, 2013, the most recent actuarial valuation date, the miscellaneous and safety plans were 69.3% and 74.5% funded, respectively. The actuarial accrued liability for benefits was \$316,832,264 and \$285,837,080 for miscellaneous and safety, respectively, and the actuarial value of assets was \$219,521,228 and \$213,084,280 for miscellaneous and safety, respectively, resulting in an unfunded actuarial accrued liability (UAAL) of \$97,311,036 and \$72,752,800 for miscellaneous and safety, respectively. The covered payroll (annual payroll of active employees covered by the plans) were \$31,961,445 and \$19,983,630 for miscellaneous and safety, respectively, and the ratios of the UAAL to the covered payroll were 304.5% and 364.1% for miscellaneous and safety, respectively.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

A summary of principle assumptions and methods used for the most recent actuarial valuation are as follows:

	Miscellaneous Plan	Safety Plan
Valuation Date	June 30, 2013	June 30, 2013
Actuarial Cost Method	Entry Age Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Average Remaining Period	18 Years as of the Valuation Date	23 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market	15 Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50% (net of administrative expenses)	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**12: City Employees Retirement Plans (Continued)**

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30-year period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Defined Contribution Plan

In accordance with the Federal Omnibus Budget Reconciliation Act of 1990, the City established pension benefits for all of its part-time employees through Public Agency Retirement Services (PARS) which is a private administrator of pension plans that administers for the City a defined contribution plan, qualifying under sections 401 and 501 of the Internal Revenue Code. PARS acts as a common investment and administrative agent for participating public entities within the State of California. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City by Council action and agreements with labor bargaining units has the authority to establish or amend the plan provisions and contribution requirements, subject to the constraints and limitations imposed by PARS as a part of the plan design options it offers to participating employers.

For the year ended June 30, 2014, the City's total covered payroll was \$1,996,787. The City made employer contributions of \$0, and employees contributed \$149,760 (7.5 percent of covered payroll). All eligible employees are covered by the plan and are fully vested. Employer liabilities are limited to the amount of current contributions. The plan covers part-time, seasonal, or temporary employees, and all employees not covered by another retirement system, subject to the requirements of Section 3121 of the Internal Revenue Code.

**13: Other Disclosures**

On February 8, 2006, the City entered into a developer agreement with Palomar Pomerado Health (Hospital). The Hospital made a onetime payment to the City in the amount of \$13 million (deposit) for the City to construct certain Citracado Parkway improvements (project). The deposit is to be jointly controlled by the City and the Hospital. The City is entitled to draw from the deposit so long as the funds are used exclusively on the project. At June 30, 2014, the balance is \$11,485,403.

**14: Contingencies**

Litigation

Various claims and suits have been filed against the City in the normal course of business. Although the outcome of these matters is not presently determinable in the opinion of legal counsel, the city believes that the resolutions of these matters will not have a material adverse effect on the financial condition of the City.



**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**14: Contingencies (Continued)**

Advances to Successor Agency

In accordance with AB X1 26 which dissolves redevelopment agencies, Section 34171(d)(2) states, in relation to borrowings between the City and the Agency, that “for purposes of this part, enforceable obligation does not include any agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency. However, written agreements entered into (A) at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and (B) solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations for the purposes of this part. Notwithstanding this paragraph, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created it, within two years of the date of creation of the redevelopment agency, may be deemed to be enforceable obligations”. The City believes these are to be upheld as viable enforceable obligations and have been included on the Recognized Obligation Payment Schedule (ROPS) from the Successor Agency. Certain amounts have been denied by the Department of Finance and these borrowings are currently in litigation and the possible outcome is unknown at this time.

**15: Construction Commitments**

The following material construction commitments existed at June 30, 2014:

Project Name	Contract Amount	Expenditures to date as of June 30, 2014	Remaining Commitments
HARRF Influent Pump Station Rehab	\$ 7,833,111	\$ 6,135,604	\$ 1,697,507
HARRF Expansion Ph III-Ops	5,540,642	2,293,508	3,247,134
Lake Wohlford Dam Replacement Design Proj	5,090,858	930,041	4,160,817
Final Design of Citracado Pkwy, Andreasen Dr to W Valley Pkwy St Improvement Proj	2,488,045	436,682	2,051,363

**16: Successor Agency Trust For Assets of the Former Redevelopment Agency**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Escondido that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 25, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution number 2012-16.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)**

in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

**A. Cash and investments**

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments	\$ 8,445,820
Total	\$ 8,445,820

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)**

**B. Capital Assets**

The following capital assets were transferred from the former CDC to the Successor Agency as of February 1, 2012, as a result of the dissolution.

An analysis of capital assets as of June 30, 2014, is as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 6,074,290	\$	\$	\$ 6,074,290
Total capital assets, not being depreciated	<u>6,074,290</u>			<u>6,074,290</u>
Capital assets, being depreciated:				
Land improvements	139,295			139,295
Buildings	84,382,538			84,382,538
Machinery and equipment	276,473			276,473
Total capital assets, being depreciated	<u>84,798,306</u>			<u>84,798,306</u>
Less accumulated depreciation for:				
Land improvements	139,295			139,295
Buildings	49,526,724	2,736,015		52,262,739
Machinery and equipment	276,473			276,473
Total accumulated depreciation	<u>49,942,492</u>	<u>2,736,015</u>		<u>52,678,507</u>
Total capital assets being depreciated, net	<u>34,855,814</u>	<u>(2,736,015)</u>		<u>32,119,799</u>
Total capital assets, net	<u>\$ 40,930,104</u>	<u>\$ (2,736,015)</u>	<u>\$</u>	<u>\$ 38,194,089</u>

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)**

**C. Long-Term Debt**

The following debt was transferred from the former CDC to the Successor Agency as of February 1, 2012, as a result of the dissolution.

A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2014, follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014	Due Within One Year	Due Beyond One Year
Advances from the City of Escondido	\$ 4,370,046	\$ 3,290	\$	\$ 4,373,336	\$	\$ 4,373,336
1992 Tax Allocation Revenue Bonds	2,216,646		2,216,646			
2007 A & B Lease Revenue Bonds	35,545,000		3,475,000	32,070,000	5,785,000	26,285,000
Loans - Other Governments	6,582,222		3,132,222	3,450,000		3,450,000
<b>Total</b>	<b>\$ 48,713,914</b>	<b>\$ 3,290</b>	<b>\$ 8,823,868</b>	<b>39,893,336</b>	<b>\$ 5,785,000</b>	<b>\$ 34,108,336</b>
Unamortized Bond Premium				919,184		
<b>Total</b>				<b>\$ 40,812,520</b>		

Advances from the City of Escondido

The Community Development Commission Debt Service Fund had received monies from the General Fund, Street Special Revenue Fund and Community Development Commission Low and Moderate Income Housing Fund for use in its operations, capital improvement projects, and Educational Revenue Augmentation Fund payments made for fiscal years 1992-93 through 1994-95 and 2003-04 through 2005-06. These advances were absorbed by the Successor Agency at February 1, 2012, and recorded on the ROPS to be an enforceable obligation. In a letter dated December 18, 2012, the California Department of Finance disallowed \$37,470,054. These borrowings are currently in litigation and the possible outcome is unknown at this time. At June 30, 2014, the outstanding balance of the advances from other funds totaled \$4,373,336.

Tax Allocation Bonds

In January 1992, the Escondido Joint Powers Financing Authority issued \$35,986,152 Revenue Bonds Series 1992 for the purpose of making a loan to the Escondido Community Development Commission. In December 2001, the Commission issued \$22,420,000 Revenue Bonds to advance refund \$23,585,000 of the bonds. The bonds were paid in full during the year ending June 30, 2014.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

**16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)**

Lease Revenue Bonds

In January 2007, the Escondido Joint Powers Financing Authority issued \$40,025,000 2007A Lease Revenue Refunding Bonds and \$16,525,000 2007B Taxable Lease Revenue Refunding Bonds to refund the 1995 Certificates of Participation (COP) Lease Revenue Bonds.

The 2007A Lease Revenue Refunding Bonds bear interest rates between 3.6% to 4.02% payable semiannually on March 1 and September 1 of each year. The 2007A Lease Revenue Refunding Bonds mature between September 1, 2009 and September 1, 2018, in amounts ranging from \$850,000 to \$5,025,000. The 2007B Taxable Lease Revenue Refunding Bonds mature on September 1, 2018 at 5.53% rate. The 2007B bonds are subject to mandatory redemption from a sinking fund account in amounts ranging from \$930,000 to \$2,045,000 commencing September 1, 2009. Both 2007A and 2007B bonds are subject to mandatory redemption as a whole or in part on any date without premium, from unused insurance or condemnation proceed as described in the bond covenants. The reserve for 2007A and 2007B bonds was in form of surety bond and fully funded. The outstanding balance at June 30, 2014, is \$32,070,000. Unamortized bond premium and gain on refunding was \$919,184 and \$183,262 respectively, at June 30, 2014.

Debt Service Requirements to Maturity

The annual requirements to amortize outstanding long-term debt including accreted values through maturity, excluding amounts for employee leave benefits payable, claims payable and loans payable are as follows (expressed in thousands of dollars):

Year Ending June 30	Lease Revenue Bonds	
	Principal	Interest
2015	\$ 5,785	\$ 1,504
2016	6,085	1,198
2017	6,400	876
2018	6,730	538
2019	7,070	182
Total Debt Service Payments	\$ 32,070	\$ 4,298

**D. Insurance**

The Successor Agency is covered under the City of Escondido's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Successor Agency. Additional information as to coverage and self-insured retentions can be found in Note 10.

**CITY OF ESCONDIDO**  
**Notes to the Basic Financial Statements (Continued)**  
**June 30, 2014**

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**16: Successor Agency Trust For Assets of the Former Redevelopment Agency (Continued)**

**E. Commitments and Contingencies**

At June 30, 2014, the Successor Agency was involved as a defendant in several lawsuits arising out of the ordinary conduct of its affairs. It is the opinion of management that settlements of these lawsuits, including losses for claims that are incurred but not reported, if any, will not have a material effect on the financial position of the Successor Agency.

**17: Subsequent Event**

In December 2014 the San Luis Rey settlement agreement with the City of Escondido, the Bands (the La Jolla, Rincon, San Pasqual, Pauma, and Pala Bands of Mission Indians) and Vista Irrigation District (VID) was signed by all parties and will be enacted once various preconditions are met which is expected to be completed in 2016. The Agreement commits Escondido and VID within five year from the effective date of that agreement to "remove, relocate, and replace with an underground pipeline most or all of that portion of the Escondido Canal and its appurtenant structures, facilities, and rights-of-way that currently occupy land within the San Pasqual Reservation." The cost of this project is currently unknown but is estimated to cost approximately \$11 million. Additionally, Escondido and VID will each pay the Indian Water Authority \$3.85 million ("Settlement Payment").

# **Required Supplementary Information**

**CITY OF ESCONDIDO**  
**Public Employees Retirement System**  
**Schedule of Funding Progress**  
**June 30, 2014**

The Schedule of Funding Progress below show the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The schedule of funding progress, presented below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Safety Employees

Actuarial Valuation Date	Accrued Liability (AAL) Entry Age	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
6/30/2011	264,683,120	219,102,277	45,580,843	82.8%	20,389,124	223.6%
6/30/2012	277,251,472	229,827,258	47,424,214	82.9%	19,568,948	242.3%
6/30/2013	285,837,080	213,084,280	72,752,800	74.5%	19,983,630	364.1%

Miscellaneous Employees

Actuarial Valuation Date	Accrued Liability (AAL) Entry Age	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
6/30/2011	289,371,286	224,366,487	65,004,799	77.5%	32,582,511	199.5%
6/30/2012	301,925,404	235,998,321	65,927,083	78.2%	31,403,451	209.9%
6/30/2013	316,832,264	219,521,228	97,311,036	69.3%	31,961,445	304.5%



**CITY OF ESCONDIDO**  
**General Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
<b>Revenues:</b>				
<b>Sales Tax:</b>				
Sales tax	\$ 26,352,000	\$ 25,452,000	\$ 24,145,308	\$ (1,306,692)
In-lieu sales tax	8,489,500	8,132,000	8,131,987	(13)
<b>Total Sales Tax</b>	<b>34,841,500</b>	<b>33,584,000</b>	<b>32,277,295</b>	<b>(1,306,705)</b>
<b>Other Taxes:</b>				
Property taxes	10,280,000	10,526,000	10,556,483	30,483
Property transfer tax	386,000	495,000	507,599	12,599
Franchise tax	6,249,000	6,953,000	6,591,147	(361,853)
Transient occupancy tax	1,205,000	1,304,000	1,322,016	18,016
Business license tax	1,622,000	1,642,000	1,658,276	16,276
Miscellaneous other taxes	798,415	841,915	1,284,733	442,818
<b>Total Other Taxes</b>	<b>20,540,415</b>	<b>21,761,915</b>	<b>21,920,254</b>	<b>158,339</b>
<b>Licenses and Permits:</b>				
Tow licenses	450,000	450,000	446,250	(3,750)
Building permits	290,000	290,000	317,983	27,983
Other licenses and permits	194,000	194,000	226,931	32,931
<b>Total Licenses and Permits</b>	<b>934,000</b>	<b>934,000</b>	<b>991,164</b>	<b>57,164</b>
<b>Fines and Forfeits:</b>				
Vehicle code fines	500,000	400,000	228,808	(171,192)
Parking ticket fines	200,000	200,000	397,390	197,390
Library fines	83,000	83,000	174,899	91,899
Booking fees	78,000	78,000	73,797	(4,203)
Red light photo citations	206,500	206,500	56,162	(150,338)
Other fines	349,000	349,000	253,236	(95,764)
<b>Total Fines and Forfeits</b>	<b>1,416,500</b>	<b>1,316,500</b>	<b>1,184,292</b>	<b>(132,208)</b>

(Continued)

See Note to Required Supplementary Information.

**CITY OF ESCONDIDO**  
**General Fund**  
**Budgetary Comparison Schedule (Continued)**  
**For the Year Ended June 30, 2014**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
<b>Intergovernmental:</b>				
State motor vehicle in lieu			62,583	62,583
Property tax in-lieu	10,532,000	10,668,000	10,668,256	256
Grants	462,450	462,450	1,329,837	867,387
Rincon fire operation fees	1,900,000	1,800,000	1,466,481	(333,519)
Miscellaneous agencies	165,050	165,050	175,975	10,925
<b>Total Intergovernmental</b>	<b>13,059,500</b>	<b>13,095,500</b>	<b>13,703,132</b>	<b>607,632</b>
<b>Charges for Services:</b>				
Zoning and subdivision fees	70,000	70,000	137,488	67,488
Annexation fees	5,000	5,000	22,000	17,000
Sale of maps and publications	1,000	1,000	223	(777)
Plan check fees	173,000	223,000	254,207	31,207
Environmental impact report	5,000	5,000	30,098	25,098
Engineering and inspection fees	460,000	974,000	969,639	(4,361)
Special police services	455,500	505,500	468,108	(37,392)
Fire and paramedic services	3,963,000	4,229,190	4,671,014	441,824
Processing fees	44,000	44,000	17,990	(26,010)
Recycling revenue	776,000	726,000	596,216	(129,784)
Senior services	13,000	13,000	12,142	(858)
Audio visual rentals	60,000	60,000	51,260	(8,740)
Other	131,000	131,000	270,175	139,175
<b>Total Charges for Services</b>	<b>6,156,500</b>	<b>6,986,690</b>	<b>7,500,560</b>	<b>513,870</b>
<b>Investment income</b>	<b>450,000</b>	<b>250,000</b>	<b>156,253</b>	<b>(93,747)</b>
<b>Miscellaneous:</b>				
Rent	2,966,000	3,013,120	2,913,387	(99,733)
Contributions	63,500	89,335	27,769	(61,566)
Mobile home fees	41,000	41,000	33,107	(7,893)
Library trust donations			102,807	102,807
Other	237,000	241,905	252,044	10,139
<b>Total Miscellaneous</b>	<b>3,307,500</b>	<b>3,385,360</b>	<b>3,329,114</b>	<b>(56,246)</b>
<b>Total Revenues</b>	<b>80,705,915</b>	<b>81,313,965</b>	<b>81,062,064</b>	<b>(251,901)</b>

(Continued)

See Note to Required Supplementary Information.

**CITY OF ESCONDIDO**  
**General Fund**  
**Budgetary Comparison Schedule (Continued)**  
**For the Year Ended June 30, 2014**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
Expenditures:				
General Government:				
City council	302,215	303,915	303,263	(652)
City manager	989,505	1,168,530	1,117,985	(50,545)
City attorney	178,710	355,710	344,318	(11,392)
City clerk	478,595	647,015	565,505	(81,510)
City treasurer	287,270	289,805	282,050	(7,755)
Finance	1,208,225	1,304,805	1,070,053	(234,752)
Human resources	536,130	580,965	529,784	(51,181)
Information systems	1,078,215	1,097,265	1,014,221	(83,044)
Other	1,457,805	660,195	357,495	(302,700)
<b>Total General Government</b>	<b>6,516,670</b>	<b>6,408,205</b>	<b>5,584,674</b>	<b>(823,531)</b>
Public Safety:				
Police	35,307,675	35,735,300	35,589,194	(146,106)
Fire	20,312,690	20,673,315	20,577,272	(96,043)
<b>Total Public Safety</b>	<b>55,620,365</b>	<b>56,408,615</b>	<b>56,166,466</b>	<b>(242,149)</b>
Public Works:				
Highways and streets	10,330,295	10,380,630	9,813,633	(566,997)
Community Services:				
Library	3,525,625	3,531,240	3,495,897	(35,343)
Community services	2,645,835	2,740,715	2,689,113	(51,602)
Community relations	91,170	101,170	49,000	(52,170)
<b>Total Community Services</b>	<b>6,262,630</b>	<b>6,373,125</b>	<b>6,234,010</b>	<b>(139,115)</b>

(Continued)

See Note to Required Supplementary Information.

**CITY OF ESCONDIDO**  
**General Fund**  
**Budgetary Comparison Schedule (Continued)**  
**For the Year Ended June 30, 2014**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
Community Development:				
Planning	1,369,000	1,406,085	1,347,121	(58,964)
Building	767,980	770,625	712,265	(58,360)
Code enforcement	1,024,675	1,024,675	920,326	(104,349)
Total Community Development	<u>3,161,655</u>	<u>3,201,385</u>	<u>2,979,712</u>	<u>(221,673)</u>
Debt Service:				
Principal retirements			23,176	23,176
Total Expenditures	<u>81,891,615</u>	<u>82,771,960</u>	<u>80,801,671</u>	<u>(1,970,289)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,185,700)</u>	<u>(1,457,995)</u>	<u>260,393</u>	<u>1,718,388</u>
Other Financing Sources (Uses):				
Sale of capital assets		437,295	537,293	99,998
Transfers in	2,126,800	2,256,879	2,278,879	22,000
Transfers out	(621,100)	(3,830,037)	(3,830,037)	
Total Other Financing Sources (Uses)	<u>1,505,700</u>	<u>(1,135,863)</u>	<u>(1,013,865)</u>	<u>121,998</u>
Net Change in Fund Balance	320,000	(2,593,858)	(753,472)	1,840,386
Fund Balance at Beginning of Year	<u>20,941,805</u>	<u>20,941,805</u>	<u>20,941,805</u>	
Fund Balance at End of Year	<u>\$ 21,261,805</u>	<u>\$ 18,347,947</u>	<u>\$ 20,188,333</u>	<u>\$ 1,840,386</u>

See Note to Required Supplementary Information.

**CITY OF ESCONDIDO**  
**Successor Agency Housing Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Original Budget Amounts	Final Budget Amounts	Actual	Variance Over (Under)
<b>Revenues:</b>				
Lease income	\$ 191,945	\$ 191,945	\$ 205,259	\$ 13,314
Investment income	100	100	272,247	272,147
Miscellaneous			41,640	41,640
<b>Total Revenues</b>	<b>192,045</b>	<b>192,045</b>	<b>519,146</b>	<b>327,101</b>
<b>Expenditures:</b>				
Community development	625,015	625,015	724,378	99,363
<b>Excess of Revenues Over Expenditures</b>	<b>(432,970)</b>	<b>(432,970)</b>	<b>(205,232)</b>	<b>227,738</b>
<b>Other Financing Sources (Uses):</b>				
Sale of city property	55,000	55,000	(250,753)	(305,753)
Transfers in	60,000	60,000	60,000	
<b>Total Other Financing Sources (Uses)</b>	<b>115,000</b>	<b>115,000</b>	<b>(190,753)</b>	<b>(305,753)</b>
<b>Net Change in Fund Balance</b>	<b>(317,970)</b>	<b>(317,970)</b>	<b>(395,985)</b>	<b>(78,015)</b>
<b>Fund Balance at Beginning of Year</b>	<b>42,846,747</b>	<b>42,846,747</b>	<b>42,846,747</b>	
<b>Fund Balance at End of Year</b>	<b>\$ 42,528,777</b>	<b>\$ 42,528,777</b>	<b>\$ 42,450,762</b>	<b>\$ (78,015)</b>

See Note to Required Supplementary Information.

**CITY OF ESCONDIDO**  
**Notes to Required Supplementary Information**  
**June 30, 2014**

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Budgetary Data

The City adopts an annual operating budget prepared on the modified accrual basis for its general, certain special revenue and certain debt service funds. Under Section 2-59 of the Escondido City Code, the City Manager is required to prepare and submit to the City Council the annual budget of the City and administer it after adoption. Each year, the City Manager submits a proposed budget to the City Council in May. The City Council holds budget hearings in June and the final budget is adopted by the City Council before June 30. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between the accounts of any fund; however, any revisions that alter the total appropriations of any fund must be approved by City Council.

No budgetary comparisons are presented for certain special revenue, certain debt service capital projects or proprietary funds as the City is not legally required to adopt an annual budget for those funds. The special revenue funds with legally adopted budgets include the: Successor Agency Housing, Street, Parks and Recreation, Community Development Block Grant, Landscape and Assessment District, HOME, Miscellaneous Funds and the Vehicle Parking District Fund.

The City holds a midyear budget review meeting at which time revenue and expenditure projections are reviewed. Any necessary changes are approved by the City Council. Prior period appropriations lapse unless they are reappropriated through the formal budget process or through the carryover process. The City controls its expenditures using encumbrance accounting.

In addition to the annual operating budget, the City adopts a Five-Year Capital improvement Program. Funds are appropriated for the first year of the plan with years two through five included for planning purposes. Funds are appropriated on a project basis and are carried over until expended or the project is closed. The legal level of budgetary control is at the project level. The City Manager is authorized to transfer budgeted amounts between projects when transfers are less than \$50,000 or 10% of the project. Transfers in excess of the budget policy amount must be approved by the City Council.

# **Supplementary Information**

## **SPECIAL REVENUE FUNDS**

### **STREET FUND**

This fund was established to account for transactions related to:

- Gasoline taxes received under Sections 2103, 2105, 2106, 2107, and 2107.5 of the Streets and Highways Code. These funds are utilized solely for street-related purposes such as new construction, rehabilitation or maintenance.
- Traffic impact fees which are collected from developers. These fees are used exclusively for street improvements that are required as the result of growth and development.

### **PARKS AND RECREATION FUND**

This fund was established to account for transactions related to:

- The purchase and development of parks with funding received from park development fees collected from developers.
- All Park and Recreation transactions. This includes operation of the East Valley Community Center, Kit Carson Park Sports Center, and the Reidy Creek Municipal Golf Course.
- The revenue received from the sale of mitigation credits. The funds will be used to provide fund restoration projects at Daley Ranch.

### **COMMUNITY DEVELOPMENT BLOCK GRANT FUND**

This fund was created to account for transactions related to the Community Development Block Grant provided by the Federal Government. The resources are expended for community development and housing assistance.

### **LANDSCAPE AND ASSESSMENT DISTRICT FUND**

This fund was created to account for transactions related to the maintenance of landscaping in various subdivision areas throughout the City. There are currently 36 active assessment districts.



## **SPECIAL REVENUE FUNDS**

(Continued)

### **LAW ENFORCEMENT FUND**

This fund was established to account for transactions related to:

- Revenue received by the Police Department through the asset forfeiture program. The funds must be used to supplement and enhance existing law enforcement budgets.
- Transactions related to the law enforcement grants received from the Federal and State Government. These funds are used to provide front line law enforcement services and must supplement existing services.

### **CABLE TECHNOLOGY FUND**

This fund was created to account for a Technology Grant from Cox Communications for the purchase and installation of telecommunications equipment and services.

### **HOME FUND**

This fund was created to account for transactions related to the HOME grant provided by the Department of Housing and Urban Development (HUD). The resources are expended for affordable housing programs.

### **MISCELLANEOUS FUND**

This fund was established to account for transactions related to:

- Public art fees, which are assessed when development occurs. The funds will be used to provide public art throughout the city.
- General reimbursable grants received and restricted by outside sources including federal, state, county, and local agencies.
- The Hegyi Family Trust. Funds are used to recognize library volunteers.
- Monies received from the Frances B. Ryan Trust. The Trust was established to create the Pioneer Room, a historical perspective of Escondido, and to provide financing for its ongoing operation.

### **VEHICLE PARKING DISTRICT FUND**

This fund was established to account for transactions related to the maintenance and operation of the City-owned public parking lots. Funding is provided by parking permit revenues.

## **DEBT SERVICE FUNDS**

### **GOLF COURSE DEBT SERVICE FUND**

This fund was created to account for transactions related to debt issued for the development of two Municipal Golf Courses. Funding is provided by repayment of a loan to American Golf Corporation and a General Fund transfer.

### **GENERAL OBLIGATION DEBT SERVICE FUND**

This fund was created to account for transactions related to debt issued for the construction of the new public safety facilities. On November 2, 2004, Escondido voters approved Proposition P, which authorized the sale of up to \$84,350,000 in municipal bonds. Funding is provided through special assessments on the property tax rolls.

## **CAPITAL PROJECT FUNDS**

### **STREET IMPROVEMENT FUND**

This fund was created to account for projects related to street improvements. Funding is provided from a variety of sources, which include transfers from Gas Tax and Traffic Impact Funds.

### **STORM DRAIN FUND**

This fund was created to account for funds collected from developers when projects create a need for improvements to the City's storm drain basin system. Funds are held until collections for a specific basin make an improvement.

### **PUBLIC SAFETY FACILITIES**

This fund was created to account for projects related to the fire, police and paramedic 911 emergency response measure (Proposition P). These projects are intended to improve fire and police response times, better coordinate emergency/disaster response and public communication and improve paramedic response time. On November 2, 2004, Escondido voters approved Proposition P, which authorized the sale of up to \$84,350,000 in municipal bonds to finance the new public safety facilities. Funding is provided through special assessments on the property tax rolls.

### **GENERAL CAPITAL PROJECT FUND**

This fund was created to account for transactions related to general capital projects. These projects are typically funded through transfers from General, Public Facilities, and Water and Sewer funds.

## **CAPITAL PROJECT FUNDS**

(Continued)

### **COUNTY TRANSPORTATION STREET AND BICYCLE PROJECTS FUND**

This fund was established to account for funds received:

- Through the adoption of the 1987 San Diego County Special Proposition A, this provides a transportation sales tax override to fund local street improvements.
- From SANDAG relative to the Transportation Development Act. Expenditures in this fund pertain to the development of bike paths.

### **PUBLIC FACILITIES FUND**

This fund was created to account for developer fees collected for public facility needs that are created as the result of growth and development in the city.

## **PERMANENT FUNDS**

### **DALEY RANCH FUND**

This fund was created to fund the City's long-term management and maintenance efforts, of Daley Ranch, as stated in the agreement with the Wildlife Agencies.

**CITY OF ESCONDIDO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2014**

	Special Revenue Funds			
	Street	Parks and Recreation	Community Development Block Grant	Landscape and Assessment District
<u>Assets:</u>				
Cash and investments	\$ 6,013,810	\$ 2,206,657	\$	\$ 899,102
Cash and investments with fiscal agent				
<u>Receivables:</u>				
Accounts		310,853		
Interest	18,471	6,936		2,966
Taxes				565
Loans		259,297	251,858	
Loans to Successor Agency	974,044			
Due from other governments	433,197	47,870	1,136,363	
Inventory, at cost		9,000		
Prepaid expenditures		11,248		
Deposits		55,088		
Land held for resale				
Advances to other funds				
Total Assets	<u>\$ 7,439,522</u>	<u>\$ 2,906,949</u>	<u>\$ 1,388,221</u>	<u>\$ 902,633</u>
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances:</u>				
<u>Liabilities:</u>				
<u>Payables:</u>				
Accounts	\$ 454,610	\$ 85,632	\$ 36,067	\$ 6,874
Deposits		43,919		
Accrued expenditures		85,144	76,558	
Due to other funds			959,890	
Due to other governments				
Unearned revenue				
Advances from other funds		200,000		
Total Liabilities	<u>454,610</u>	<u>414,695</u>	<u>1,072,515</u>	<u>6,874</u>
<u>Deferred Inflows of Resources:</u>				
Unavailable Revenue	<u>802,180</u>	<u>51,350</u>	<u>568,137</u>	
<u>Fund Balances (Deficits):</u>				
Restricted	6,182,732	2,117,666		895,759
Committed		323,238		
Assigned				
Unassigned			(252,431)	
Total Fund Balances (Deficits)	<u>6,182,732</u>	<u>2,440,904</u>	<u>(252,431)</u>	<u>895,759</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,439,522</u>	<u>\$ 2,906,949</u>	<u>\$ 1,388,221</u>	<u>\$ 902,633</u>

Special Revenue Funds

<u>Law Enforcement</u>	<u>Cable Technology</u>	<u>HOME</u>	<u>Miscellaneous</u>	<u>Vehicle Parking District</u>
\$	\$ 11,506	\$ 2,926,930	\$ 388,028	\$ 5,220
3,323	35	3,370,115	4,226 1,530	79
		13,910,296		
923,472			11,027	
<u>\$ 926,795</u>	<u>\$ 11,541</u>	<u>\$ 20,207,341</u>	<u>\$ 404,811</u>	<u>\$ 5,299</u>
\$ 160	\$	\$ 100	\$ 971	\$ 441
8,493 43,887			402	
387,579				469,988
<u>440,119</u>		<u>100</u>	<u>1,373</u>	<u>159,250</u> <u>629,679</u>
<u>748,328</u>		<u>3,360,112</u>	<u>11,027</u>	
	11,541	16,847,129	333,082 70,820	
(261,652)			(11,491)	(624,380)
<u>(261,652)</u>	<u>11,541</u>	<u>16,847,129</u>	<u>392,411</u>	<u>(624,380)</u>
<u>\$ 926,795</u>	<u>\$ 11,541</u>	<u>\$ 20,207,341</u>	<u>\$ 404,811</u>	<u>\$ 5,299</u>

(Continued)

**CITY OF ESCONDIDO**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds (Continued)**  
**June 30, 2014**

	Debt Service Funds		Capital Projects Funds	
	Golf Course	General Obligation	Street Improvement	Storm Drain
<u>Assets:</u>				
Cash and investments	\$	\$ 4,264,526	\$ 3,523,677	\$ 176,422
Cash and investments with fiscal agent	673,137			
Receivables:				
Accounts				
Interest	2,442	11,796	12,957	
Taxes		28,230		818
Loans				
Loans to Successor Agency				
Due from other governments			642,239	
Inventory, at cost				
Prepaid expenditures				
Deposits				
Land held for resale				
Advances to other funds			200,000	
Total Assets	\$ 675,579	\$ 4,304,552	\$ 4,378,873	\$ 177,240
<u>Liabilities, Deferred Inflows of Resources, and Fund Balances:</u>				
Liabilities:				
Payables:				
Accounts	\$	\$	\$ 265,195	\$
Deposits			1,901,348	9,573
Accrued expenditures				
Due to other funds	154,943			
Due to other governments				
Unearned revenue				
Advances from other funds				
Total Liabilities	154,943		2,166,543	9,573
Deferred Inflows of Resources:				
Unavailable Revenue			617,128	
Fund Balances:				
Restricted	520,636	4,304,552	1,595,202	167,667
Committed				
Assigned				
Unassigned				
Total Fund Balances (Deficits)	520,636	4,304,552	1,595,202	167,667
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 675,579	\$ 4,304,552	\$ 4,378,873	\$ 177,240

Capital Projects Funds				Permanent Fund	Total Nonmajor Governmental Funds
Public Safety Facilities	General Capital Project	County Transportation Street and Bicycle Projects	Public Facilities	Daley Ranch	
\$ 75,573	\$ 1,779,036	\$ 392,284	\$ 4,730,135	\$ 221,918	\$ 27,614,824
					673,137
					315,079
122	7,273		18,247	810	3,457,102
					29,613
					14,421,451
					974,044
	1,298				3,195,466
					9,000
					11,248
					55,088
		802,142			802,142
			330,000		530,000
<u>\$ 75,695</u>	<u>1,787,607</u>	<u>\$ 1,194,426</u>	<u>\$ 5,078,382</u>	<u>\$ 222,728</u>	<u>\$ 52,088,194</u>
\$	\$ 7,710	\$ 420,947	\$ 17,852	\$	\$ 1,296,559
	18,240				1,973,080
	7,537		115		178,249
					1,158,720
					469,988
					387,579
					359,250
	<u>33,487</u>	<u>420,947</u>	<u>17,967</u>		<u>5,823,425</u>
					6,158,262
75,695		773,479	5,060,415	222,728	39,108,283
	1,614,467				2,008,525
	139,653				139,653
					(1,149,954)
<u>75,695</u>	<u>1,754,120</u>	<u>773,479</u>	<u>5,060,415</u>	<u>222,728</u>	<u>40,106,507</u>
<u>\$ 75,695</u>	<u>\$ 1,787,607</u>	<u>\$ 1,194,426</u>	<u>\$ 5,078,382</u>	<u>\$ 222,728</u>	<u>\$ 52,088,194</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2014**

	Special Revenue Funds			
	Street	Parks and Recreation	Community Development Block Grant	Landscape Assessment District
Revenues:				
Other taxes	\$	\$	\$	\$
Intergovernmental	4,624,581	768,915	1,940,652	
Charges for services	299,169	2,701,212		
Special assessments				749,328
Investment income	94,836	65,921		7,348
Miscellaneous		595,877	13,495	5,760
Total Revenues	<u>5,018,586</u>	<u>4,131,925</u>	<u>1,954,147</u>	<u>762,436</u>
Expenditures:				
Current:				
General government				
Public safety				
Public works	1,224,663		53,556	671,927
Community services		4,454,119	1,106,610	
Community development	10,262		122,643	
Capital outlay	604,947	13,810	911,723	
Debt Service:				
Principal retirements		5,185		
Interest and fiscal charges				
Total Expenditures	<u>1,839,872</u>	<u>4,473,114</u>	<u>2,194,532</u>	<u>671,927</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,178,714</u>	<u>(341,189)</u>	<u>(240,385)</u>	<u>90,509</u>
Other Financing Sources (Uses):				
Sale of capital assets		1,060,000		
Transfers in		133,984		
Transfers out	<u>(2,055,000)</u>	<u>(741,600)</u>		
Total Other Financing Sources (Uses)	<u>(2,055,000)</u>	<u>452,384</u>		
Net Change in Fund Balances	1,123,714	111,195	(240,385)	90,509
Fund Balances at Beginning of Fiscal Year	<u>5,059,018</u>	<u>2,329,709</u>	<u>(12,046)</u>	<u>805,250</u>
Fund Balances at End of Year	<u>\$ 6,182,732</u>	<u>\$ 2,440,904</u>	<u>\$ (252,431)</u>	<u>\$ 895,759</u>



Special Revenue Funds

Law Enforcement	Cable Technology	HOME	Miscellaneous	Vehicle Parking District
\$ 1,654,283	\$	\$ 195,676	\$ 143,427 26,021	\$
8,235	86	129,633	4,472 61	90
<u>1,662,518</u>	<u>86</u>	<u>325,309</u>	<u>173,981</u>	<u>90</u>
1,593,885			105,750 34,883	74,627
587,613		237,208	59,965 26,938	
<u>2,181,498</u>		<u>237,208</u>	<u>227,536</u>	<u>74,627</u>
<u>(518,980)</u>	<u>86</u>	<u>88,101</u>	<u>(53,555)</u>	<u>(74,537)</u>
	4,065		(46,800)	76,800
	<u>4,065</u>		<u>(46,800)</u>	<u>76,800</u>
(518,980)	4,151	88,101	(100,355)	2,263
<u>257,328</u>	<u>7,390</u>	<u>16,759,028</u>	<u>492,766</u>	<u>(626,643)</u>
<u>\$ (261,652)</u>	<u>\$ 11,541</u>	<u>\$ 16,847,129</u>	<u>\$ 392,411</u>	<u>\$ (624,380)</u>

(Continued)

**CITY OF ESCONDIDO**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds (Continued)**  
**For the Year Ended June 30, 2014**

	Debt Service Funds		Capital Project Funds	
	Golf Course	General Obligation	Street Improvement	Storm Drain
Revenues:				
Other taxes	\$	\$	\$	\$
Intergovernmental			677,923	
Charges for services			1,701,461	55,892
Special assessments		5,047,009		
Investment income	623	13,052	42,951	3,406
Miscellaneous				
Total Revenues	<u>623</u>	<u>5,060,061</u>	<u>2,422,335</u>	<u>59,298</u>
Expenditures:				
Current:				
General government				
Public safety				
Public works			374,984	8,573
Community services				
Community development				
Capital outlay			1,073,774	407,599
Debt Service:				
Principal retirements	800,000	1,700,000		
Interest and fiscal charges	238,542	3,498,695		
Total Expenditures	<u>1,038,542</u>	<u>5,198,695</u>	<u>1,448,758</u>	<u>416,172</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,037,919)</u>	<u>(138,634)</u>	<u>973,577</u>	<u>(356,874)</u>
Other Financing Sources (Uses):				
Sale of capital assets				
Transfers in	1,081,515			
Transfers out				
Total Other Financing Sources (Uses)	<u>1,081,515</u>			
Net Change in Fund Balances	43,596	(138,634)	973,577	(356,874)
Fund Balances at Beginning of Fiscal Year	<u>477,040</u>	<u>4,443,186</u>	<u>621,625</u>	<u>524,541</u>
Fund Balances at End of Year	<u>\$ 520,636</u>	<u>\$ 4,304,552</u>	<u>\$ 1,595,202</u>	<u>\$ 167,667</u>

Capital Projects Funds				Permanent Fund	Total Nonmajor Governmental Funds
Public Safety Facilities	General Capital Project	County Transportation Street Projects	Public Facilities	Daley Ranch	
\$	\$	\$ 3,091,906	\$	\$	\$ 3,091,906
					10,005,457
			229,270		5,013,025
					5,796,337
375	21,134	3,027	69,927	2,210	467,326
	275,866			4,166	895,225
375	297,000	3,094,933	299,197	6,376	25,269,276
	226,342				226,342
	113,670				1,707,555
	12,782	2,848,845			5,375,707
	79,589		219,293		5,894,494
	104,026				534,104
	785,835	894,330	243,871		5,550,440
					2,505,185
					3,737,237
	1,322,244	3,743,175	463,164		25,531,064
375	(1,025,244)	(648,242)	(163,967)	6,376	(261,788)
					1,060,000
	400,000		1,000,000		2,696,364
	(61,306)				(2,904,706)
	338,694		1,000,000		851,658
375	(686,550)	(648,242)	836,033	6,376	589,870
75,320	2,440,670	1,421,721	4,224,382	216,352	39,516,637
\$ 75,695	\$ 1,754,120	\$ 773,479	\$ 5,060,415	\$ 222,728	\$ 40,106,507

**CITY OF ESCONDIDO**  
**Street Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>Revenues:</b>			
Intergovernmental	\$ 4,275,000	\$ 4,624,581	\$ 349,581
Charges for services	721,500	299,169	(422,331)
Investment income	23,300	94,836	71,536
<b>Total Revenues</b>	<b>5,019,800</b>	<b>5,018,586</b>	<b>(1,214)</b>
<b>Expenditures:</b>			
Public works	3,986,374	1,224,663	(2,761,711)
Community development	672,141	10,262	(661,879)
Capital outlay	3,009,094	604,947	(2,404,147)
<b>Total Expenditures</b>	<b>7,667,609</b>	<b>1,839,872</b>	<b>(5,827,737)</b>
(Deficiency) of Revenues Over Expenditures	(2,647,809)	3,178,714	5,826,523
<b>Other Financing (Uses):</b>			
Transfers out	(2,055,000)	(2,055,000)	
<b>Net Change in Fund Balance</b>	<b>(4,702,809)</b>	<b>1,123,714</b>	<b>5,826,523</b>
Fund Balance at Beginning of Year	5,059,018	5,059,018	
Fund Balance at End of Year	\$ 356,209	\$ 6,182,732	\$ 5,826,523

**CITY OF ESCONDIDO**  
**Parks and Recreation Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>Revenues:</b>			
Intergovernmental	\$ 845,740	\$ 768,915	\$ (76,825)
Charges for services	3,405,320	2,701,212	(704,108)
Investment income	60,700	65,921	5,221
Miscellaneous	553,580	595,877	42,297
<b>Total Revenues</b>	<b>4,865,340</b>	<b>4,131,925</b>	<b>(733,415)</b>
<b>Expenditures:</b>			
Community services	4,738,960	4,454,119	(284,841)
Capital outlay	653,715	13,810	(639,905)
<b>Debt Service:</b>			
Principal retirements	5,185	5,185	
<b>Total Expenditures</b>	<b>5,397,860</b>	<b>4,473,114</b>	<b>(924,746)</b>
<b>Excess of Revenues Over Expenditures</b>	<b>(532,520)</b>	<b>(341,189)</b>	<b>191,331</b>
<b>Other Financing Sources (Uses):</b>			
Sale of capital assets	1,060,000	1,060,000	
Transfers in	133,984	133,984	
Transfers out	(741,600)	(741,600)	
<b>Total Other Financing Sources</b>	<b>452,384</b>	<b>452,384</b>	
<b>Net Change in Fund Balance</b>	<b>(80,136)</b>	<b>111,195</b>	<b>191,331</b>
<b>Fund Balance at Beginning of Year</b>	<b>2,329,709</b>	<b>2,329,709</b>	
<b>Fund Balance at End of Year</b>	<b>\$ 2,249,573</b>	<b>\$ 2,440,904</b>	<b>\$ 191,331</b>

**CITY OF ESCONDIDO**  
**Community Development Block Grant Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Intergovernmental	\$ 1,482,970	\$ 1,940,652	\$ 457,682
Miscellaneous		13,495	13,495
Total Revenues	<u>1,482,970</u>	<u>1,954,147</u>	<u>471,177</u>
Expenditures:			
Public works	53,556	53,556	
Community services	1,325,225	1,106,610	(218,615)
Community development	200,000	122,643	(77,357)
Capital outlay	1,335,776	911,723	(424,053)
Total Expenditures	<u>2,914,557</u>	<u>2,194,532</u>	<u>(720,025)</u>
Net Change in Fund Balance	(1,431,587)	(240,385)	1,191,202
Fund Balance at Beginning of Year	<u>(12,046)</u>	<u>(12,046)</u>	
Fund Balance at End of Year	<u><u>\$ (1,443,633)</u></u>	<u><u>\$ (252,431)</u></u>	<u><u>\$ 1,191,202</u></u>

**CITY OF ESCONDIDO**  
**Landscape and Assessment District Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Special assessments	\$ 749,220	\$ 749,328	\$ 108
Investment income	2,300	7,348	5,048
Miscellaneous	5,760	5,760	
Total Revenues	757,280	762,436	5,156
Expenditures:			
Public works	907,275	671,927	(235,348)
Net Change in Fund Balance	(149,995)	90,509	240,504
Fund Balance at Beginning of Year	805,250	805,250	
Fund Balance at End of Year	<u>\$ 655,255</u>	<u>\$ 895,759</u>	<u>\$ 240,504</u>

**CITY OF ESCONDIDO**  
**HOME Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Intergovernmental	\$ 406,865	\$ 195,676	\$ (211,189)
Investment income	500	129,633	129,133
Total Revenues	407,365	325,309	(82,056)
Expenditures:			
Community development	186,605	237,208	50,603
Net Change in Fund Balance	220,760	88,101	(132,659)
Fund Balance at Beginning of Year	16,759,028	16,759,028	
Fund Balance at End of Year	<u>\$ 16,979,788</u>	<u>\$ 16,847,129</u>	<u>\$ (132,659)</u>



**CITY OF ESCONDIDO**  
**Miscellaneous Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
<b>Revenues:</b>			
Intergovernmental	\$ 33,811	\$ 143,427	\$ 109,616
Charges for services	109,600	26,021	(83,579)
Investment income	6,830	4,472	(2,358)
Miscellaneous	61	61	61
<b>Total Revenues</b>	<b>150,241</b>	<b>173,981</b>	<b>23,740</b>
<b>Expenditures:</b>			
Public works	182,528	105,750	(76,778)
Community services	286,500	34,883	(251,617)
Community development	273,727	59,965	(213,762)
Capital outlay	109,250	26,938	(82,312)
<b>Total Expenditures</b>	<b>852,005</b>	<b>227,536</b>	<b>(624,469)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(701,764)</b>	<b>(53,555)</b>	<b>648,209</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in			
Transfers out	(46,800)	(46,800)	
<b>Total Other Financing Sources</b>	<b>(46,800)</b>	<b>(46,800)</b>	
<b>Net Change in Fund Balance</b>	<b>(748,564)</b>	<b>(100,355)</b>	<b>648,209</b>
<b>Fund Balance at Beginning of Year</b>	<b>492,766</b>	<b>492,766</b>	
<b>Fund Balances at End of Year</b>	<b>\$ (255,798)</b>	<b>\$ 392,411</b>	<b>\$ 648,209</b>

**CITY OF ESCONDIDO**  
**Vehicle Parking District Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Investment income	\$ 200	\$ 90	\$ (110)
Expenditures:			
Public works	77,000	74,627	(2,373)
Excess (Deficiency) of Revenues Over Expenditures	(76,800)	(74,537)	2,263
Other Financing Sources (Uses):			
Transfers in	76,800	76,800	
Net Change in Fund Balance		2,263	2,263
Fund Balance at Beginning of Year	(626,643)	(626,643)	
Fund Balances at End of Year	<u>\$ (626,643)</u>	<u>\$ (624,380)</u>	<u>\$ 2,263</u>

**CITY OF ESCONDIDO**  
**Golf Course Debt Service Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Investment income	\$ 840	\$ 623	\$ (217)
Expenditures:			
Principal retirements	800,000	800,000	
Interest and fiscal charges	238,385	238,542	157
Total Expenditures	1,038,385	1,038,542	157
(Deficiency) of Revenues Over Expenditures	(1,037,545)	(1,037,919)	(374)
Other Financing Sources:			
Transfers in	1,081,515	1,081,515	
Total Other Financing Sources	1,081,515	1,081,515	
Net Change in Fund Balance	43,970	43,596	(374)
Fund Balance at Beginning of Year	477,040	477,040	
Fund Balance at End of Year	\$ 521,010	\$ 520,636	\$ (374)

**CITY OF ESCONDIDO**  
**General Obligation Debt Service Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2014**

	Final Budget Amounts	Actual	Variance Over (Under)
Revenues:			
Special assessments	\$ 5,062,335	\$ 5,047,009	\$ (15,326)
Investment income	14,500	13,052	(1,448)
Total Revenues	<u>5,076,835</u>	<u>5,060,061</u>	<u>(16,774)</u>
Expenditures:			
Principal retirements	1,700,000	1,700,000	
Interest and fiscal charges	3,498,745	3,498,695	(50)
Total Expenditures	<u>5,198,745</u>	<u>5,198,695</u>	<u>(50)</u>
Net Change in Fund Balance	(121,910)	(138,634)	(16,724)
Fund Balance at Beginning of Year	<u>4,443,186</u>	<u>4,443,186</u>	
Fund Balance at End of Year	<u>\$ 4,321,276</u>	<u>\$ 4,304,552</u>	<u>\$ (16,724)</u>



## **INTERNAL SERVICE FUNDS**

### **BUILDING MAINTENANCE FUND**

This fund was created to account for financial activity related to the maintenance and repair of all City-owned buildings. Funding is provided through charges to other departments, based on square footage, common area allocation, and specific maintenance projects. A reserve for replacement will be accumulated to replace carpeting, air conditioning, roofing and other maintenance items.

### **VEHICLE AND EQUIPMENT MAINTENANCE FUND**

This fund was created to account for transactions related to the maintenance, operation, and replacement of the City's vehicles, whereby the City can more accurately determine the full cost of services. Such costs to other departments are billed through charges to departments in the form of a rental payment for each piece of equipment.

### **CENTRAL SERVICES FUND**

This fund was created to account for transactions related to:

- The provision of postage, telephone, and copying services. Funding is provided through charges to other departments based on actual usage.
- The provision of a central stores warehouse. Funding is provided through charges to user departments.

### **OFFICE AUTOMATION FUND**

This fund was created to account for financial activity related to Office Automation services, licensing and hardware. Funding is provided through charges to other departments based on workstation inventory.

### **WORKERS' COMPENSATION FUND**

This fund was created to account for transactions related to the City's self-insurance provision of Workers' Compensation insurance. Funding is provided through charges to other departments based on payroll expense.

### **GENERAL LIABILITY SELF-INSURANCE FUND**

This fund was created to account for transactions related to the City's self-insurance provision of general liability insurance. Funding is provided through charges to other departments based on future risk evaluation, prior claims experience, and other factors.

## **INTERNAL SERVICE FUNDS**

(Continued)

### **INSURANCE FUND**

This fund was created to account for transactions related to:

- The provision of health and life insurance for City employees. Funding is provided through charges to other departments and employee contributions based on employee participation.
- The provision of vision insurance to City employees. Funding is provided by employees through payroll deductions.
- Property insurance obtained for the City. Funding is provided through charges to other departments based on replacement cost of the property and square footage allocations.
- The provision of dental insurance to City employees. Funding is provided through charges to other departments and employee contributions based on employee participation.
- The provision of unemployment insurance. Funding is provided through charges to other departments based on payroll expense.

**CITY OF ESCONDIDO**  
**Combining Statement of Net Position**  
**Internal Service Funds**  
**June 30, 2014**

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services
<u>Assets</u>			
Current Assets:			
Cash and investments	\$ 587,839	\$ 7,534,606	\$ 910,375
Receivables:			
Accounts		16,707	
Interest	2,218	27,194	3,376
Inventory		143,800	302,063
Deposits			
Total Current Assets	<u>590,057</u>	<u>7,722,307</u>	<u>1,215,814</u>
Non-current assets:			
Capital Assets:			
Buildings	1,150,795	342,000	61,070
Equipment	903,311	27,743,599	49,588
Construction in progress	12,397		
Total Capital Assets	<u>2,066,503</u>	<u>28,085,599</u>	<u>110,658</u>
Less accumulated depreciation	<u>(1,027,087)</u>	<u>(22,178,642)</u>	<u>(95,274)</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>1,039,416</u>	<u>5,906,957</u>	<u>15,384</u>
Total Assets	<u>1,629,473</u>	<u>13,629,264</u>	<u>1,231,198</u>
<u>Liabilities</u>			
Current Liabilities:			
Payables:			
Accounts	141,923	114,165	134,498
Employee leave benefits	10,745	5,218	220
Estimated claims			
Loans	81,229		
Accrued expenses	26,961	19,634	3,363
Total Current Liabilities	<u>260,858</u>	<u>139,017</u>	<u>138,081</u>
Noncurrent Liabilities:			
Payables:			
Employee leave benefits	96,702	46,964	1,978
Estimated claims			
Loans	662,397		
Total Noncurrent Liabilities	<u>759,099</u>	<u>46,964</u>	<u>1,978</u>
Total Liabilities	<u>1,019,957</u>	<u>185,981</u>	<u>140,059</u>
<u>Net Position</u>			
Net investment in capital assets	1,039,416	5,906,957	15,384
Unrestricted (deficit)	<u>(429,900)</u>	<u>7,536,326</u>	<u>1,075,755</u>
Total Net Position	<u>\$ 609,516</u>	<u>\$ 13,443,283</u>	<u>\$ 1,091,139</u>



<u>Office Automation</u>	<u>Workers' Compensation</u>	<u>General Liability Self-Insurance</u>	<u>Insurance</u>	<u>Total</u>
\$ 58,973	\$ 7,800,209	\$ 3,306,092	\$ 1,221,820	\$ 21,419,914
126	28,382	12,623	43,202	59,909
			3,213	77,132
	250,000		62,600	445,863
<u>59,099</u>	<u>8,078,591</u>	<u>3,318,715</u>	<u>1,330,835</u>	<u>22,315,418</u>
176,223				1,553,865
				28,872,721
				12,397
<u>176,223</u>				<u>30,438,983</u>
<u>(62,742)</u>				<u>(23,363,745)</u>
<u>113,481</u>				<u>7,075,238</u>
<u>172,580</u>	<u>8,078,591</u>	<u>3,318,715</u>	<u>1,330,835</u>	<u>29,390,656</u>
5,765	125,298	145,918	66,124	733,691
	141		426	16,750
	1,932,800	977,312		2,910,112
				81,229
<u>17,470</u>	<u>1,559</u>		<u>23,398</u>	<u>92,385</u>
<u>23,235</u>	<u>2,059,798</u>	<u>1,123,230</u>	<u>89,948</u>	<u>3,834,167</u>
	1,266		3,829	150,739
	7,731,200	3,909,247		11,640,447
				662,397
	<u>7,732,466</u>	<u>3,909,247</u>	<u>3,829</u>	<u>12,453,583</u>
<u>23,235</u>	<u>9,792,264</u>	<u>5,032,477</u>	<u>93,777</u>	<u>16,287,750</u>
113,481				7,075,238
35,864	(1,713,673)	(1,713,762)	1,237,058	6,027,668
<u>\$ 149,345</u>	<u>\$ (1,713,673)</u>	<u>\$ (1,713,762)</u>	<u>\$ 1,237,058</u>	<u>\$ 13,102,906</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Internal Service Funds**  
**For the Year Ended June 30, 2014**

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services
Operating Revenues:			
Charges for services	\$ 3,188,200	\$ 5,379,980	\$ 1,278,869
Operating Expenses:			
Personnel services	1,709,763	1,000,032	218,305
Administrative expenses	15,284	10,760	
Benefit claims			
Supplies	103,151	41,559	97,727
Repairs and maintenance	101,012	793,735	71,297
Depreciation	128,207	1,844,755	4,548
Utilities	761,510	4,130	419,011
Fuel		1,267,187	
Professional services	1,312,458	39,125	243,453
Insurance premiums	46,065	32,910	11,275
Rent	1,284		
Other		41,186	151,130
Total Operating Expenses	4,178,734	5,075,379	1,216,746
Operating Income (Loss)	(990,534)	304,601	62,123
Non-Operating Revenues (Expenses):			
Investment income	4,092	65,236	10,614
Interest and fiscal charges	(30,985)		
Miscellaneous	465	157,516	2,506
Total Non-Operating Revenues	(26,428)	222,752	13,120
Income (Loss) Before Transfers and Capital Contributions	(1,016,962)	527,353	75,243
Transfers in	1,151,000	1,100,000	
Transfers out			(449,100)
Capital contributions		171,989	
Change in Net Position	134,038	1,799,342	(373,857)
Net Position at Beginning of Year	475,478	11,643,941	1,464,996
Net Position at End of Year	\$ 609,516	\$ 13,443,283	\$ 1,091,139

Office Automation	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
\$ 1,462,781	\$ 1,881,363	\$ 2,189,331	\$ 10,367,325	\$ 25,747,849
1,037,871	101,320		158,005	4,225,296
	308,150	1,302,930	196,445	1,833,569
	859,854	583,208	674,690	2,117,752
43,470	822		2,503	289,232
148			1,018	967,210
31,858				2,009,368
12,416	1,904		9,275	1,208,246
				1,267,187
	1,904,978	1,705,568	150,926	5,356,508
10,560	472,400	568,794	9,253,661	10,395,665
				1,284
336,704	5,494	15,474	37,858	587,846
1,473,027	3,654,922	4,175,974	10,484,381	30,259,163
(10,246)	(1,773,559)	(1,986,643)	(117,056)	(4,511,314)
1,006	48,029	14,943	7,919	151,839
				(30,985)
			29,108	189,595
1,006	48,029	14,943	37,027	310,449
(9,240)	(1,725,530)	(1,971,700)	(80,029)	(4,200,865)
22,600				2,273,600
				(449,100)
				171,989
13,360	(1,725,530)	(1,971,700)	(80,029)	(2,204,376)
135,985	11,857	257,938	1,317,087	15,307,282
\$ 149,345	\$ (1,713,673)	\$ (1,713,762)	\$ 1,237,058	\$ 13,102,906

**CITY OF ESCONDIDO**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2014**

	Building Maintenance	Vehicle and Equipment Maintenance	Central Services
<b>Cash flows from Operating Activities:</b>			
Cash received from customers	\$ 3,188,200	\$ 5,365,686	\$ 1,278,869
Cash paid to employees for services	(1,701,503)	(1,007,409)	(225,466)
Cash paid to other suppliers of goods or services	(2,244,431)	(2,532,308)	(1,001,209)
Cash from other sources	465	39,846	
Net Cash Provided by (Used for) Operating Activities	<u>(757,269)</u>	<u>1,865,815</u>	<u>52,194</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Cash received from other funds	1,151,000	1,100,000	
Cash paid from other funds			(449,100)
Net Cash Provided by Noncapital Financing Activities	<u>1,151,000</u>	<u>1,100,000</u>	<u>(449,100)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Purchase of capital assets	(189,399)	(2,066,528)	(8,455)
Sale of capital assets		103,722	2,506
Interest payments on loans	(30,985)		
Principal payments on loans	(78,200)		
Net Cash (Used for) Capital and Related Financing Activities	<u>(298,584)</u>	<u>(1,962,806)</u>	<u>(5,949)</u>
<b>Cash Flows from Investing Activities:</b>			
Investment income received	5,338	65,035	12,490
Net Increase (Decrease) in Cash and Cash Equivalents	100,485	1,068,044	(390,365)
Cash and Cash Equivalents at Beginning of Year	<u>487,354</u>	<u>6,466,562</u>	<u>1,300,740</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 587,839</u></u>	<u><u>\$ 7,534,606</u></u>	<u><u>\$ 910,375</u></u>

Office Automation	Workers' Compensation	General Liability Self-Insurance	Insurance	Total
\$ 1,462,781	\$ 1,881,363	\$ 2,189,331	\$ 10,389,121	\$ 25,755,351
(1,035,073)	(409,103)	(1,302,930)	(387,301)	(6,068,785)
(405,199)	(2,844,904)	(2,308,438)	(10,093,726)	(21,430,215)
			29,108	69,419
22,509	(1,372,644)	(1,422,037)	(62,798)	(1,674,230)
22,600				2,273,600
				(449,100)
22,600				1,824,500
(30,809)				(2,295,191)
				106,228
				(30,985)
				(78,200)
(30,809)				(2,298,148)
936	58,706	22,949	8,903	174,357
15,236	(1,313,938)	(1,399,088)	(53,895)	(1,973,521)
43,737	9,114,147	4,705,180	1,275,715	23,393,435
\$ 58,973	\$ 7,800,209	\$ 3,306,092	\$ 1,221,820	\$ 21,419,914

(Continued)

**CITY OF ESCONDIDO**  
**Combining Statement of Cash Flows**  
**Internal Service Funds (Continued)**  
**For the Year Ended June 30, 2014**

	<u>Building Maintenance</u>	<u>Vehicle and Equipment Maintenance</u>	<u>Central Services</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (990,534)	\$ 304,601	\$ 62,123
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation expense	128,207	1,844,755	4,548
Cash from other sources	465	39,846	
Change in assets and liabilities:			
(Increase) decrease in accounts receivable		(14,294)	
(Increase) in inventories		(2,590)	(20,805)
Increase (decrease) in accounts payable	81,049	(309,886)	13,489
Increase (decrease) in accrued expenses	3,088	1,639	746
Increase (decrease) in employee leave benefits payable	20,456	1,744	(7,907)
Increase in estimated claims payable			
Total Adjustments	<u>233,265</u>	<u>1,561,214</u>	<u>(9,929)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (757,269)</u>	<u>\$ 1,865,815</u>	<u>\$ 52,194</u>
Noncash Investing, Capital and Financing Activities:			
Contributed property, plant and equipment		<u>\$ 171,989</u>	

<u>Office Automation</u>	<u>Workers' Compensation</u>	<u>General Liability Self-Insurance</u>	<u>Insurance</u>	<u>Total</u>
<u>\$ (10,246)</u>	<u>\$ (1,773,559)</u>	<u>\$ (1,986,643)</u>	<u>\$ (117,056)</u>	<u>\$ (4,511,314)</u>
31,858				2,009,368
			29,108	69,419
			21,796	7,502
				(23,395)
(1,901)	125,263	125,389	36,205	69,608
2,798	31		(30,134)	(21,832)
	336		(2,717)	11,912
	<u>275,285</u>	<u>439,217</u>		<u>714,502</u>
<u>32,755</u>	<u>400,915</u>	<u>564,606</u>	<u>54,258</u>	<u>2,837,084</u>
<u>\$ 22,509</u>	<u>\$ (1,372,644)</u>	<u>\$ (1,422,037)</u>	<u>\$ (62,798)</u>	<u>\$ (1,674,230)</u>
				<u>\$ 171,989</u>

## **AGENCY FUNDS**

### **HIDDEN TRAILS COMMUNITY FACILITIES DISTRICT**

This fund was created to account for debt service payments on 1982 Mello-Roos Community Facility Act special tax bonds paid from special taxes collected and remitted to a fiscal agent. The bonds were issued to finance the acquisition of certain backbone public facilities including street, water and sewer facilities in the Hidden Trails Community Facilities District.

### **EUREKA RANCH COMMUNITY FACILITIES DISTRICT**

This fund was created to account for debt service payments on 1982 Mello-Roos Community Facility Act special tax bonds paid from special taxes collected and remitted to a fiscal agent. The bonds were issued to finance various public improvements including street, storm drain and sewer improvements as well as utility undergrounding within the Eureka Ranch Community Facilities District.

### **AUTO PARKWAY ASSESSMENT DISTRICT FUND**

This fund was created to account for debt service payments on 1915 Act Assessment bonds paid from special assessments collected and remitted to a fiscal agent-trustee. The bonds were issued to finance capital improvements in the Auto Parkway District, including drainage and road improvements, sewer, lighting, and other improvements.

### **RANCHO SAN PASQUAL FUND**

This fund was created to account for the debt service payments collected directly from property owners and remitted to bondholders for payment on Rancho San Pasqual bonds, issued to finance certain public improvements within the City's Assessment District No. 95-1.

### **DEPOSIT TRUST FUND**

This fund was created to account for deposits received and held by the City as an agent for individuals, developers, private organizations, and other governmental agencies.



**CITY OF ESCONDIDO**  
**Combining Statement of Assets and Liabilities**  
**Agency Funds**  
**June 30, 2014**

	Hidden Trails Community Facilities District	Eureka Ranch Community Facilities District	Auto Parkway Assessment District	Rancho San Pasqual	Deposit Trust	Total
<u>Assets</u>						
Cash and investments	\$ 176,061	\$ 832,940	\$ 297,171	\$ 256,768	\$ 5,643,506	\$ 7,206,446
Cash and investments with fiscal agent	9,998	1,217,269	335,379	341,543		1,904,189
Receivables:						
Interest	471	6,269	1,892	1,858	495	10,985
Taxes	1,155			713		1,868
	<u>187,685</u>	<u>2,056,478</u>	<u>634,442</u>	<u>600,882</u>	<u>5,644,001</u>	<u>9,123,488</u>
Total Assets	<u>\$ 187,685</u>	<u>\$ 2,056,478</u>	<u>\$ 634,442</u>	<u>\$ 600,882</u>	<u>\$ 5,644,001</u>	<u>\$ 9,123,488</u>
<u>Liabilities</u>						
Accounts payable	\$	\$	\$	\$	\$ 267,609	\$ 267,609
Deposits payable					5,376,392	5,376,392
Due to bondholders	187,685	2,056,478	634,442	600,882		3,479,487
	<u>187,685</u>	<u>2,056,478</u>	<u>634,442</u>	<u>600,882</u>	<u>5,644,001</u>	<u>9,123,488</u>
Total Liabilities	<u>\$ 187,685</u>	<u>\$ 2,056,478</u>	<u>\$ 634,442</u>	<u>\$ 600,882</u>	<u>\$ 5,644,001</u>	<u>\$ 9,123,488</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**  
**For the Year Ended June 30, 2014**

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
<u>Hidden Trails Community Facilities District</u>				
<u>Assets</u>				
Cash and investments	\$ 170,352	\$ 217,825	\$ (212,116)	\$ 176,061
Restricted assets:				
Cash and investments with fiscal agent	229,965	5,452,035	(5,672,002)	9,998
Receivables:				
Interest	791	471	(791)	471
Taxes	832	1,155	(832)	1,155
	<u>401,940</u>	<u>5,671,486</u>	<u>(5,885,741)</u>	<u>187,685</u>
Total Assets	<u>\$ 401,940</u>	<u>\$ 5,671,486</u>	<u>\$ (5,885,741)</u>	<u>\$ 187,685</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 512,537	\$ (512,537)	\$
Due to bondholders	401,940	2,687,912	(2,902,167)	187,685
	<u>401,940</u>	<u>3,200,449</u>	<u>(3,414,704)</u>	<u>187,685</u>
Total Liabilities	<u>\$ 401,940</u>	<u>\$ 3,200,449</u>	<u>\$ (3,414,704)</u>	<u>\$ 187,685</u>
<u>Eureka Ranch Community Facilities District</u>				
<u>Assets</u>				
Cash and investments	\$ 852,902	\$ 1,216,809	\$ (1,236,771)	\$ 832,940
Restricted assets:				
Cash and investments with fiscal agent	1,233,242	7,969	(23,942)	1,217,269
Receivables:				
Interest	3,973	6,269	(3,973)	6,269
Taxes	3,823		(3,823)	
	<u>2,093,940</u>	<u>1,231,047</u>	<u>(1,268,509)</u>	<u>2,056,478</u>
Total Assets	<u>\$ 2,093,940</u>	<u>\$ 1,231,047</u>	<u>\$ (1,268,509)</u>	<u>\$ 2,056,478</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 1,228,558	\$ (1,228,558)	\$
Due to bondholders	2,093,940	1,640,199	(1,677,661)	2,056,478
	<u>2,093,940</u>	<u>2,868,757</u>	<u>(2,906,219)</u>	<u>2,056,478</u>
Total Liabilities	<u>\$ 2,093,940</u>	<u>\$ 2,868,757</u>	<u>\$ (2,906,219)</u>	<u>\$ 2,056,478</u>

**CITY OF ESCONDIDO**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds (Continued)**  
**For the Year Ended June 30, 2014**

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
<u>Auto Parkway Assessment District</u>				
<u>Assets</u>				
Cash and investments	\$ 287,890	\$ 343,094	\$ (333,813)	\$ 297,171
Restricted assets:				
Cash and investments with fiscal agent	335,813	2,185	(2,619)	335,379
Receivables:				
Interest	1,168	1,892	(1,168)	1,892
Total Assets	<u>\$ 624,871</u>	<u>\$ 347,171</u>	<u>\$ (337,600)</u>	<u>\$ 634,442</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 331,234	\$ (331,234)	\$
Due to bondholders	624,871	604,632	(595,061)	634,442
Total Liabilities	<u>\$ 624,871</u>	<u>\$ 935,866</u>	<u>\$ (926,295)</u>	<u>\$ 634,442</u>
<u>Rancho San Pasqual</u>				
<u>Assets</u>				
Cash and investments	\$ 252,062	\$ 351,178	\$ (346,472)	\$ 256,768
Restricted assets:				
Cash and investments with fiscal agent	342,557	2,226	(3,240)	341,543
Receivables:				
Interest	1,166	1,858	(1,166)	1,858
Taxes	1,442	713	(1,442)	713
Total Assets	<u>\$ 597,227</u>	<u>\$ 355,975</u>	<u>\$ (352,320)</u>	<u>\$ 600,882</u>
<u>Liabilities</u>				
Accounts payable	\$	\$ 343,788	\$ (343,788)	\$
Due to bondholders	597,227	521,736	(518,081)	600,882
Total Liabilities	<u>\$ 597,227</u>	<u>\$ 865,524</u>	<u>\$ (861,869)</u>	<u>\$ 600,882</u>

(Continued)

**CITY OF ESCONDIDO**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds (Continued)**  
**For the Year Ended June 30, 2014**

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
<u>Deposit Trust</u>				
<u>Assets</u>				
Cash and investments	\$ 5,625,944	\$ 1,482,818	\$ (1,465,256)	\$ 5,643,506
Receivables:				
Interest	562	495	(562)	495
Total Assets	<u>\$ 5,626,506</u>	<u>\$ 1,483,313</u>	<u>\$ (1,465,818)</u>	<u>\$ 5,644,001</u>
<u>Liabilities</u>				
Accounts payable	\$ 52,697	\$ 1,398,171	\$ (1,183,259)	\$ 267,609
Deposits payable	5,573,809	1,527,251	(1,724,668)	5,376,392
Total Liabilities	<u>\$ 5,626,506</u>	<u>\$ 2,925,422</u>	<u>\$ (2,907,927)</u>	<u>\$ 5,644,001</u>
 <u>Total Agency Funds</u>				
<u>Assets</u>				
Cash and investments	\$ 7,189,150	\$ 3,611,724	\$ (3,594,428)	\$ 7,206,446
Restricted assets:				
Cash and investments with fiscal agent	2,141,577	5,464,415	(5,701,803)	1,904,189
Receivables:				
Interest	7,660	10,985	(7,660)	10,985
Taxes	6,097	1,868	(6,097)	1,868
Total Assets	<u>\$ 9,344,484</u>	<u>\$ 9,088,992</u>	<u>\$ (9,309,988)</u>	<u>\$ 9,123,488</u>
<u>Liabilities</u>				
Accounts payable	\$ 52,697	\$ 3,301,751	\$ (3,086,839)	\$ 267,609
Deposits payable	5,573,809	1,527,251	(1,724,668)	5,376,392
Due to bondholders	3,717,978	5,454,479	(5,692,970)	3,479,487
Total Liabilities	<u>\$ 9,344,484</u>	<u>\$ 10,283,481</u>	<u>\$ (10,504,477)</u>	<u>\$ 9,123,488</u>

# Statistical Section



## **STATISTICAL SECTION**

This section of the City of Escondido's comprehensive annual financial report provides detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the government's overall financial health.

### **FINANCIAL TRENDS INFORMATION**

These schedules are intended to assist users in understanding and assessing how a government's financial position has changed over time.

### **REVENUE CAPACITY INFORMATION**

These schedules are intended to assist users in understanding and assessing factors affecting a government's ability to generate its own revenue.

### **DEBT CAPACITY INFORMATION**

These schedules are intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.

### **DEMOGRAPHIC AND ECONOMIC INFORMATION**

These schedules are intended to assist users in understanding the socioeconomic environment within which a government operates and provide information that facilitates comparison of financial statement information over time and among governments.

### **OPERATING INFORMATION**

These schedules are intended to provide information about operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

**CITY OF ESCONDIDO**  
**Net Assets by Component**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	2005	2006	2007	2008
<b>Governmental Activities:</b>				
Net investment in capital assets	\$ 125,179,668	\$ 147,033,475	\$ 175,696,600	\$ 197,917,746
Restricted	66,200,766	69,207,183	77,955,931	83,690,162
Unrestricted	63,198,878	67,952,345	80,216,675	65,128,364
<b>Total Governmental Activities Net Position</b>	<b>\$ 254,579,312</b>	<b>\$ 284,193,003</b>	<b>\$ 333,869,206</b>	<b>\$ 346,736,272</b>
<b>Business-type Activities:</b>				
Net investment in capital assets	\$ 85,789,505	\$ 94,483,383	\$ 118,573,025	\$ 123,532,924
Restricted				
Unrestricted	32,141,690	37,421,108	26,761,762	30,304,352
<b>Total Business-type Activities Net Position</b>	<b>\$ 117,931,195</b>	<b>\$ 131,904,491</b>	<b>\$ 145,334,787</b>	<b>\$ 153,837,276</b>
<b>Primary Government:</b>				
Net investment in capital assets	\$ 210,969,173	\$ 241,516,858	\$ 294,269,625	\$ 321,450,670
Restricted	66,200,766	69,207,183	77,955,931	83,690,162
Unrestricted	95,340,568	105,373,453	106,978,437	95,432,716
<b>Total Primary Government Activities Net Position</b>	<b>\$ 372,510,507</b>	<b>\$ 416,097,494</b>	<b>\$ 479,203,993</b>	<b>\$ 500,573,548</b>

Source:

City of Escondido Finance Department.



2009	2010	2011	2012	2013	2014
\$ 198,895,947	\$ 205,646,459	\$ 222,661,354	\$ 225,296,741	\$ 211,228,317	\$ 207,003,751
89,093,908	114,214,410	86,393,247	98,970,485	90,152,311	92,356,580
65,461,162	36,921,478	40,341,057	53,862,572	27,922,604	24,555,904
<u>\$ 353,451,017</u>	<u>\$ 356,782,347</u>	<u>\$ 349,395,658</u>	<u>\$ 378,129,798</u>	<u>\$ 329,303,232</u>	<u>\$ 323,916,235</u>
\$ 126,868,016	\$ 130,301,709	\$ 137,189,496	\$ 138,580,703	\$ 141,057,087	\$ 151,539,613
37,096,093	46,473,299	53,436,660	56,358,559	61,147,031	57,540,105
<u>\$ 163,964,109</u>	<u>\$ 176,775,008</u>	<u>\$ 190,626,156</u>	<u>\$ 194,939,262</u>	<u>\$ 202,204,118</u>	<u>\$ 209,079,718</u>
\$ 325,763,963	\$ 335,948,168	\$ 359,850,850	\$ 363,877,444	\$ 352,285,404	\$ 358,543,364
89,093,908	114,214,410	86,393,247	98,970,485	90,152,311	92,356,580
102,557,255	83,394,777	93,777,717	110,221,131	89,069,635	82,096,009
<u>\$ 517,415,126</u>	<u>\$ 533,557,355</u>	<u>\$ 540,021,814</u>	<u>\$ 573,069,060</u>	<u>\$ 531,507,350</u>	<u>\$ 532,995,953</u>

**CITY OF ESCONDIDO**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	2005	2006	2007	2008
<u>Expenses</u>				
Governmental Activities:				
General government	\$ 7,846,655	\$ 7,899,175	\$ 8,373,054	\$ 9,646,524
Public safety	49,039,038	52,318,975	53,981,546	57,284,755
Community services	15,620,848	11,298,631	15,004,608	29,728,378
Public works	17,609,107	24,150,012	24,159,197	18,340,037
Community development	8,383,779	10,067,992	12,635,417	13,974,447
Contributions to other governments				
Interest and fiscal charges	7,692,898	7,313,735	10,447,184	14,338,384
<b>Total Governmental Activities Expenses</b>	<b>106,192,325</b>	<b>113,048,520</b>	<b>124,601,006</b>	<b>143,312,525</b>
Business-type Activities:				
Water	32,110,409	33,612,785	37,583,686	37,989,541
Wastewater	23,596,832	22,619,254	24,660,271	26,995,420
Golf	102,235			
<b>Total Business-type Activities Expenses</b>	<b>55,809,476</b>	<b>56,232,039</b>	<b>62,243,957</b>	<b>64,984,961</b>
<b>Total Primary Government Expenses</b>	<b>\$ 162,001,801</b>	<b>\$ 169,280,559</b>	<b>\$ 186,844,963</b>	<b>\$ 208,297,486</b>
<u>Program Revenues</u>				
Governmental activities:				
Charges for services:				
General government	\$ 262,617	\$ 207,933	\$ 277,178	\$ 290,007
Public safety	8,130,038	9,053,779	9,702,964	9,241,808
Community services	3,409,784	3,922,815	4,222,222	6,864,643
Public works	2,665,396	3,300,443	1,556,038	1,411,020
Community development	2,200,680	3,026,817	2,148,321	1,507,452
Operating grants and contributions	9,537,429	15,336,026	29,978,774	15,513,780
Capital grants and contributions	19,127,256	16,511,533	19,574,286	9,042,570
<b>Total Governmental Activities Program Revenues</b>	<b>45,333,200</b>	<b>51,359,346</b>	<b>67,459,783</b>	<b>43,871,280</b>
Business-type Activities:				
Charges for services:				
Water	29,932,089	34,092,368	39,087,592	38,944,163
Wastewater	16,230,386	20,368,422	22,643,416	23,699,984
Golf				
Operating grants and contributions				2,657,685
Capital grants and contributions	5,838,768	13,978,586	11,036,390	3,554,975
<b>Total Business-type Activities Program Revenues</b>	<b>52,001,243</b>	<b>68,439,376</b>	<b>72,767,398</b>	<b>68,856,807</b>
<b>Total Primary Government Program Revenues</b>	<b>\$ 97,334,443</b>	<b>\$ 119,798,722</b>	<b>\$ 140,227,181</b>	<b>\$ 112,728,087</b>

2009	2010	2011	2012	2013	2014
\$ 8,183,784	\$ 8,058,408	\$ 8,162,775	\$ 7,923,896	\$ 6,931,282	\$ 6,817,120
53,639,237	58,486,106	56,170,547	60,467,057	58,937,215	64,735,010
20,460,103	20,321,281	13,935,737	14,428,323	13,492,016	13,824,749
23,475,660	25,927,953	30,251,264	23,508,515	28,719,020	22,830,644
12,777,932	7,814,707	9,908,625	6,765,185	6,095,723	4,442,510
				4,319,291	
8,050,461	7,649,971	7,459,498	5,946,168	4,038,630	3,709,135
126,587,177	128,258,426	125,888,446	119,039,144	122,533,177	116,359,168
38,810,712	40,277,313	37,364,315	43,537,887	48,899,219	51,937,493
24,743,922	24,154,671	23,833,875	23,995,887	25,847,825	28,748,596
63,554,634	64,431,984	61,198,190	67,533,774	74,747,044	80,686,089
\$ 190,141,811	\$ 192,690,410	\$ 187,086,636	\$ 186,572,918	\$ 197,280,221	\$ 197,045,257
\$ 455,029	\$ 159,353	\$ 351,155	\$ 735,395	\$ 481,812	\$ 1,049,402
9,980,199	9,207,628	8,273,579	8,429,675	8,322,729	8,217,629
6,798,670	5,625,758	3,871,455	4,158,173	4,118,332	4,104,210
1,253,367	1,076,721	994,907	1,160,643	1,261,705	1,554,453
1,128,602	1,372,001	1,154,371	820,337	914,370	1,351,882
9,728,353	14,568,341	12,988,723	13,503,657	12,507,289	13,031,177
11,779,461	14,818,607	10,550,030	5,608,064	8,528,675	3,331,901
41,123,681	46,828,409	38,184,220	34,415,944	36,134,912	32,640,654
39,161,082	40,155,208	37,293,900	42,398,099	48,857,327	54,411,250
25,741,913	29,208,703	28,176,381	26,430,851	28,482,081	29,413,549
301,875				6,559	243,302
4,725,698	5,851,309	8,922,144	2,155,659	3,858,657	1,879,809
69,930,568	75,215,220	74,392,425	70,984,609	81,204,624	85,947,910
\$ 111,054,249	\$ 122,043,629	\$ 112,576,645	\$ 105,400,553	\$ 117,339,536	\$ 118,588,564

(Continued)

**CITY OF ESCONDIDO**  
**Changes in Net Position (Continued)**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	2005	2006	2007	2008
<u>Net (Expense)/Revenue</u>				
Governmental activities	\$ (60,859,125)	\$ (61,689,174)	\$ (57,141,223)	\$ (99,441,245)
Business-type activities	(3,808,233)	12,207,337	10,523,441	3,871,846
Total Primary Government Net Expense	<u>\$ (64,667,358)</u>	<u>\$ (49,481,837)</u>	<u>\$ (46,617,782)</u>	<u>\$ (95,569,399)</u>
<u>General Revenues and Other</u>				
<u>Changes in Net Position</u>				
Governmental activities:				
Taxes:				
Sales taxes	\$ 30,336,573	\$ 30,002,918	\$ 28,419,440	\$ 24,471,382
Property taxes	26,392,928	30,556,891	39,320,532	43,123,943
Franchise tax	3,930,492	4,241,212	4,625,383	4,088,986
Payments in lieu of taxes	18,130,405	15,974,459	21,162,788	20,550,985
Other taxes	4,506,357	4,900,694	5,419,437	4,801,752
Use of money and property	4,019,491	4,025,320	7,341,621	14,217,786
Sale of capital assets				
Miscellaneous	675,801	1,400,371	526,770	971,977
Transfers	(29,253)	201,000	1,455	81,500
Extraordinary item: Gain/(loss) (Note 17)				
Total Governmental Activities	<u>87,962,794</u>	<u>91,302,865</u>	<u>106,817,426</u>	<u>112,308,311</u>
Business-type activities:				
Use of money and property	1,483,411	1,675,819	2,708,150	3,497,943
Miscellaneous	357,270	291,140	200,160	1,214,200
Transfers	29,253	(201,000)	(1,455)	(81,500)
Extraordinary item: Loss on chemical tank spill				
Total Business-type Activities	<u>1,869,934</u>	<u>1,765,959</u>	<u>2,906,855</u>	<u>4,630,643</u>
Total Primary Government	<u>\$ 89,832,728</u>	<u>\$ 93,068,824</u>	<u>\$ 109,724,281</u>	<u>\$ 116,938,954</u>
<u>Change in Net Position</u>				
Governmental activities	\$ 27,103,669	\$ 29,613,691	\$ 49,676,203	\$ 12,867,066
Business-type activities	(1,938,299)	13,973,296	13,430,296	8,502,489
Total primary government	<u>\$ 25,165,370</u>	<u>\$ 43,586,987</u>	<u>\$ 63,106,499</u>	<u>\$ 21,369,555</u>

Source:

City of Escondido Finance Department.

2009	2010	2011	2012	2013	2014
\$ (85,463,496)	\$ (81,430,017)	\$ (87,704,226)	\$ (84,623,200)	\$ (86,398,265)	\$ (83,718,514)
6,375,934	10,783,236	13,194,235	3,450,835	6,457,580	5,261,821
<u>\$ (79,087,562)</u>	<u>\$ (70,646,781)</u>	<u>\$ (74,509,991)</u>	<u>\$ (81,172,365)</u>	<u>\$ (79,940,685)</u>	<u>\$ (78,456,693)</u>
\$ 18,841,244	\$ 17,826,617	\$ 20,819,517	\$ 25,532,055	\$ 24,202,373	\$ 27,366,084
37,745,185	27,884,137	28,168,365	24,060,363	16,738,501	16,805,289
4,540,227	4,344,355	4,461,129	4,563,576	4,516,247	4,694,252
18,907,389	17,989,533	17,652,114	19,548,954	19,041,332	20,075,228
4,264,906	4,014,349	4,048,337	2,899,789	3,971,585	4,218,914
6,977,368	4,654,030	4,810,578	5,885,611	3,290,477	4,153,899
		171,386	399,819		
872,722	2,130,400	476,135	748,181	1,070,052	892,851
29,200	41,330	1,248,845	25,000	25,000	125,000
			29,693,992	(34,948,363)	
<u>92,178,241</u>	<u>78,884,751</u>	<u>81,856,406</u>	<u>113,357,340</u>	<u>37,907,204</u>	<u>78,331,517</u>
2,791,475	1,794,117	1,608,420	1,750,475	1,522,495	1,577,693
988,624	274,876	297,338	250,862	447,638	161,086
(29,200)	(41,330)	(1,248,845)	(25,000)	(25,000)	(125,000)
			(1,114,066)		
<u>3,750,899</u>	<u>2,027,663</u>	<u>656,913</u>	<u>862,271</u>	<u>1,945,133</u>	<u>1,613,779</u>
<u>\$ 95,929,140</u>	<u>\$ 80,912,414</u>	<u>\$ 82,513,319</u>	<u>\$ 114,219,611</u>	<u>\$ 39,852,337</u>	<u>\$ 79,945,296</u>
\$ 6,714,745	\$ (2,545,266)	\$ (5,847,820)	\$ 28,734,140	\$ (48,491,061)	\$ (5,386,997)
10,126,833	12,810,899	13,851,148	4,313,106	8,402,713	6,875,600
<u>\$ 16,841,578</u>	<u>\$ 10,265,633</u>	<u>\$ 8,003,328</u>	<u>\$ 33,047,246</u>	<u>\$ (40,088,348)</u>	<u>\$ 1,488,603</u>

**CITY OF ESCONDIDO**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	2005	2006	2007	2008
<b>General Fund</b>				
Reserved	\$ 12,000,715	\$ 11,979,933	\$ 11,981,270	\$ 10,149,296
Unreserved, designated	34,886,626	33,314,688	39,074,546	36,201,191
Unreserved, undesignated	2,213,347	5,618,069	18,267	31,478
Nonspendable				
Committed to				
Assigned to				
Unassigned				
<b>Total General Fund</b>	<b>\$ 49,100,688</b>	<b>\$ 50,912,690</b>	<b>\$ 51,074,083</b>	<b>\$ 46,381,965</b>
<b>All Other Governmental Funds</b>				
Reserved	\$ 51,100,638	\$ 59,867,398	\$ 70,384,963	\$ 79,272,342
Reserved for current projects, reported in:				
Special revenue funds	8,357,924	8,779,174	3,343,847	4,409,890
Capital projects funds	24,682,928	23,071,427	111,342,705	83,750,017
Unreserved, reported in:				
Special revenue funds	1,469,997	753,179	3,886,179	903,378
Capital projects funds	648,746	232,743	4,519,393	4,822,008
Undesignated, reported in:				
Special revenue funds		580,649	638,880	17,198
Capital projects funds	(149,480)	(2,050,830)	(653,000)	
Nonspendable				
Restricted for				
Committed to				
Assigned to				
Unassigned				
<b>Total All Other Governmental Funds</b>	<b>\$ 86,110,753</b>	<b>\$ 91,233,740</b>	<b>\$ 193,462,967</b>	<b>\$ 173,174,833</b>

Note:

The City of Escondido implemented GASB 54 for the fiscal year ended June 30, 2011 and has elected not to restate fund balance amounts in previous years.

Source:

City of Escondido Finance Department.

2009	2010	2011	2012	2013	2014
\$ 10,763,636	\$ 10,331,307	\$	\$	\$	\$
30,001,183	21,694,390				
360,555					
		5,456,377	5,180,347	2,503,401	217,690
		28,354,588	31,938,244	17,210,596	17,319,659
		713,361	852,481	980,678	897,465
		399,790	753,121	247,130	1,753,519
<u>\$ 41,125,374</u>	<u>\$ 32,025,697</u>	<u>\$ 34,924,116</u>	<u>\$ 38,724,193</u>	<u>\$ 20,941,805</u>	<u>\$ 20,188,333</u>
\$ 90,244,472	\$ 91,342,926	\$	\$	\$	\$
4,506,647	3,005,679				
38,533,362	9,407,468				
1,656,500	4,762,099				
6,609,031	8,691,702				
612,564	1,097,044				
		61,204,587	57,982,791	60,199,844	
		21,732,085	30,695,122	20,785,893	81,559,045
		8,418,117	5,208,585	2,466,775	2,008,525
		774,990	447,148	159,405	139,653
		(14,547,286)	(1,021,715)	(1,248,533)	(1,149,954)
<u>\$ 142,162,576</u>	<u>\$ 118,306,918</u>	<u>\$ 77,582,493</u>	<u>\$ 93,311,931</u>	<u>\$ 82,363,384</u>	<u>\$ 82,557,269</u>

**CITY OF ESCONDIDO**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

	2005	2006	2007	2008
<u>Revenues</u>				
Taxes	\$ 71,655,717	\$ 77,734,043	\$ 81,151,830	\$ 80,426,993
Licenses and permits	948,731	1,466,492	1,192,210	1,083,012
Fines and forfeits	2,345,309	2,591,254	3,438,103	2,775,808
Intergovernmental	20,636,158	25,479,372	24,847,891	24,981,294
Charges for services	13,808,460	17,159,737	28,652,127	14,534,487
Special assessments	486,509	534,503	5,977,365	6,114,007
Lease income	41,674	74,598	67,842	65,380
Investment income	2,925,655	2,945,448	10,853,706	17,189,718
Miscellaneous	6,377,728	4,870,084	4,460,671	6,037,085
<b>Total Revenues</b>	<b>119,225,941</b>	<b>132,855,531</b>	<b>160,641,745</b>	<b>153,207,784</b>
<u>Expenditures</u>				
General government	6,099,209	6,794,411	7,255,759	9,127,482
Public safety	48,378,236	51,915,935	55,236,173	57,495,217
Public works	9,819,464	10,950,990	15,876,014	16,530,427
Community services	11,485,472	12,161,879	13,644,105	19,136,835
Community development	5,429,443	6,857,595	6,266,748	7,484,775
Contributions to other governments				
Capital outlay	15,289,826	19,826,969	21,588,318	46,039,380
Debt service:				
Principal retirements	9,439,275	10,011,703	9,014,873	5,893,863
Interest and fiscal charges	3,564,360	3,314,576	6,000,362	14,271,646
SERAF payment	1,371,088	1,333,226		
Cost of issuance			1,838,207	
Payment to refunding				
bond escrow agent			9,331,468	
Agency tax sharing agreement	2,502,874	2,867,983	3,280,870	3,697,911
<b>Total Expenditures</b>	<b>113,379,247</b>	<b>126,035,267</b>	<b>149,332,897</b>	<b>179,677,536</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>5,846,694</b>	<b>6,820,264</b>	<b>11,308,848</b>	<b>(26,469,752)</b>
<u>Other Financing Sources (Uses)</u>				
Issuance of debt			140,900,000	2,050,000
Bond issue costs				
Payment to refunding escrow agent			(52,543,700)	
Premium of debt			3,366,017	
Sale of capital assets	91,102	851,185		
Transfers in	7,748,864	10,491,946	17,333,710	12,095,699
Transfers out	(8,287,087)	(12,628,406)	(17,974,255)	(12,656,199)
<b>Total Other Financing Sources (Uses)</b>	<b>(447,121)</b>	<b>(1,285,275)</b>	<b>91,081,772</b>	<b>1,489,500</b>
Extraordinary item: Gain/(loss)				
<b>Net Change in Fund Balance</b>	<b>\$ 5,399,573</b>	<b>\$ 5,534,989</b>	<b>\$ 102,390,620</b>	<b>\$ (24,980,252)</b>
Debt service as a percentage of noncapital expenditures	13.3%	12.5%	11.8%	15.1%

Source:

City of Escondido Finance Department.



	2009	2010	2011	2012	2013	2014
\$	74,152,418	\$ 66,166,696	\$ 69,907,949	\$ 65,556,779	\$ 53,387,010	\$ 57,289,455
	984,790	1,350,224	1,193,338	821,380	887,383	991,164
	2,552,099	2,186,227	1,895,447	1,640,528	1,468,309	1,184,292
	24,161,739	26,889,870	26,688,728	27,513,328	25,945,352	23,708,589
	14,518,395	12,759,043	9,976,316	10,281,595	11,335,203	12,513,585
	5,560,064	5,742,487	5,759,888	5,892,241	5,958,662	5,796,337
	48,743	47,609	75,321	60,024	221,513	205,259
	5,993,386	2,301,810	16,367,414	1,469,849	856,466	895,826
	6,211,906	8,177,104	4,253,232	4,432,737	4,645,031	4,265,979
	<u>134,183,540</u>	<u>125,621,070</u>	<u>136,117,633</u>	<u>117,668,461</u>	<u>104,704,929</u>	<u>106,850,486</u>
	6,908,388	6,761,408	7,096,148	6,407,543	5,834,828	5,811,016
	54,009,216	55,863,025	52,038,011	53,083,126	55,246,097	57,874,021
	15,116,819	15,364,185	18,146,072	12,542,175	17,392,655	15,189,340
	17,849,432	18,114,581	12,072,344	12,016,459	11,815,547	12,128,504
	10,003,869	5,132,958	7,165,632	4,774,106	5,331,818	4,238,194
					4,319,291	
	47,671,550	28,777,524	26,536,515	9,153,723	7,794,450	5,550,440
	6,233,746	9,653,787	10,760,000	10,512,620	7,528,360	2,528,361
	7,922,238	7,585,243	23,952,729	5,792,921	3,983,078	3,737,237
		8,556,226	1,761,576			
	5,448,326	3,817,295	9,101,406	5,921,213		
	<u>171,163,584</u>	<u>159,626,232</u>	<u>168,630,433</u>	<u>120,203,886</u>	<u>119,246,124</u>	<u>107,057,113</u>
	<u>(36,980,044)</u>	<u>(34,005,162)</u>	<u>(32,512,800)</u>	<u>(2,535,425)</u>	<u>(14,541,195)</u>	<u>(206,627)</u>
				224,078	4,830,000	
					(122,073)	
	681,996		463,018	474,819	111,234	1,346,540
	9,445,273	9,195,181	28,486,232	8,237,198	6,522,962	5,035,243
	(9,416,073)	(8,873,851)	(25,059,387)	(8,062,198)	(6,673,765)	(6,734,743)
	<u>711,196</u>	<u>321,330</u>	<u>3,889,863</u>	<u>873,897</u>	<u>4,668,358</u>	<u>(352,960)</u>
				21,191,043	(9,832,652)	
\$	<u>(36,268,848)</u>	<u>(33,683,832)</u>	<u>(28,622,937)</u>	<u>\$ 19,529,515</u>	<u>\$ (19,705,489)</u>	<u>\$ (559,587)</u>
	11.5%	13.2%	24.4%	14.7%	10.3%	6.2%

**CITY OF ESCONDIDO**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Secured <sup>(1)</sup>				Total
	Residential	Commercial	Industrial	Other	
2005 <sup>(2)</sup>	\$	\$	\$	\$	\$ 9,175,561,577
2006					10,557,048,856
2007	8,504,862,463	696,109,094	630,995,760	1,605,438,683	11,437,406,000
2008	9,296,316,740	810,686,675	689,162,975	1,753,357,367	12,549,523,757
2009	9,294,002,418	887,735,198	727,933,450	1,837,063,300	12,746,734,366
2010	8,231,590,550	939,687,068	734,423,838	1,918,881,771	11,824,583,227
2011	8,055,721,483	927,680,780	735,847,485	1,940,187,481	11,659,437,229
2012	8,250,098,328	915,511,275	704,991,571	1,890,820,616	11,761,421,790
2013	8,311,628,639	883,780,782	690,353,003	1,902,605,041	11,788,367,465
2014	8,565,684,527	874,571,529	684,905,167	1,989,341,749	12,114,502,972

Fiscal Year Ended June 30	Unsecured	Less: Exemptions	Taxable	Total
			Assessed Value	Direct Tax Rate
2005 <sup>(2)</sup>	\$ 258,794,691	\$ (383,405,102)	\$ 9,050,951,166	0.103
2006	291,432,112	(405,785,782)	10,442,695,186	0.103
2007	420,118,000	(408,095,000)	11,449,429,000	0.103
2008	465,923,040	(425,349,881)	12,590,096,916	0.103
2009	457,803,566	(507,352,437)	12,697,185,495	0.103
2010	486,166,246	(587,494,693)	11,723,254,780	0.103
2011	462,394,959	(587,861,385)	11,533,970,803	0.103
2012	455,849,872	(597,181,491)	11,620,090,171	0.103
2013	462,158,958	(612,709,744)	11,637,816,679	0.103
2014	465,412,975	(622,608,050)	11,957,307,897	0.103

Notes:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

(1) Includes City of Escondido and Community Development Commission assessed values.

(2) Assessed value by major component is not available for fiscal years 2002/03 to FY 2005/06

Source:

County of San Diego Auditor and Controller's Office.

**CITY OF ESCONDIDO**  
**Direct and Overlapping Property Tax Rates**  
**(Rate per \$100 of assessed value)**  
**Last Ten Fiscal Years**

Allocation of 1% Ad Valorem Property Taxes								
Fiscal Year Ended June 30	City Direct Rate*	Total Direct Rate	Overlapping Rates			Voter Approved Debt	Total Tax Rate	
			School District	San Diego County	All Other			
2005	0.103 %	0.103 %	0.710 %	0.157 %	0.030 %	1.000 %	0.066 %	1.066 %
2006	0.103	0.103	0.710	0.157	0.030	1.000	0.072	1.072
2007	0.103	0.103	0.710	0.157	0.030	1.000	0.115	1.115
2008	0.103	0.103	0.710	0.157	0.030	1.000	0.112	1.112
2009	0.103	0.103	0.710	0.157	0.030	1.000	0.117	1.117
2010	0.103	0.103	0.710	0.157	0.030	1.000	0.125	1.125
2011	0.103	0.103	0.710	0.157	0.030	1.000	0.139	1.139
2012	0.103	0.103	0.710	0.157	0.030	1.000	0.140	1.140
2013	0.103	0.103	0.710	0.157	0.030	1.000	0.141	1.141
2014	0.103	0.103	0.710	0.157	0.030	1.000	0.132	1.132

Note:

\* The City Direct Rate is the total direct rate to the city general fund.

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within.

Source:

County of San Diego Auditor and Controller's Office.  
 TRA 004-013 is represented in this table

**CITY OF ESCONDIDO**  
**Principal Property Taxpayers**  
**Current Year and Nine Years Ago**

Taxpayer	2014		2005	
	Taxable Assessed Value	Percentage of Total Taxable Assessed Value <sup>(1)</sup>	Taxable Assessed Value	Percentage of Total Taxable Assessed Value <sup>(2)</sup>
North County Fair LLC	\$241,191,837	2.02 %	\$156,849,354	1.72 %
Prebys Conrad Trust	87,707,026	0.73	54,919,073	0.60
M G Morning View Apts L P	47,687,853	0.40		
Cox Communications San Diego	30,322,985	0.25	44,470,021	0.49
Frit Escondido Promenade, LLC	43,991,480	0.37	25,688,501	0.28
Vons	29,583,349	0.25	31,618,199	0.35
Luna Properties LLC	41,295,463	0.35		
O C/S D Holdings LLC	34,814,252	0.29		
Garrick Motors Inc	38,023,980	0.32	21,379,436	0.23
Felicita Garp L L C	30,737,700	0.26		
Goal Line L P			57,876,341	0.64
Aimco Sunset Escondido LLC			23,127,643	0.25
New Albertsons Inc			21,768,702	0.24
Morning View Terrace			20,429,070	0.22
<b>TOTAL</b>	<b>\$625,355,925</b>	<b>5.24 %</b>	<b>\$458,126,340</b>	<b>5.02 %</b>

Notes:

(1) Net assessed valuation for 2013-14 is \$11,957,307,897

(2) Net assessed valuation for 2004-05 is \$9,106,340,924

Source:

City of Escondido Finance Department & County Assessor

**CITY OF ESCONDIDO**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
2005	\$ 8,592,735	\$ 8,074,890	93.97 %	\$ 122,320	\$ 8,197,210	95.40 %
2006	10,090,319	9,520,693	94.35	200,970	9,721,663	96.35
2007	10,867,792	10,233,625	94.16	230,682	10,464,307	96.29
2008	11,218,291	10,495,467	93.56	299,605	10,795,072	96.23
2009	10,560,667	10,048,236	95.15	419,191	10,467,427	99.12
2010	9,477,871	9,086,734	95.87	372,031	9,458,765	99.80
2011	9,382,618	9,097,417	96.96	247,404	9,344,821	99.60
2012	9,536,098	9,288,990	97.41	168,496	9,457,486	99.18
2013	9,720,947	9,489,467	97.62	155,805	9,645,271	99.22
2014	10,099,951	9,834,962	97.38	126,961	9,961,923	98.63

Notes:

The amounts presented do not include property taxes collected for the Community Development Commission in the following amounts: 2003/04 - \$12,704,173, 2004/05 - \$14,287,104, 2005/06 - \$16,364,873, 2006/07 - \$18,343,838, 2007/08 - \$21,069,222, 2008/09 - \$21,374,963, 2009/10 - \$19,863,033, and 2010/11 - \$19,092,408. The Community Development Commission was dissolved in fiscal year 2011/12.

The amounts collected in subsequent years do not include penalties and interest from fiscal year 2007 forward.

Source:

County of San Diego Auditor and Controller's Office.

**CITY OF ESCONDIDO**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Governmental Activities						
	(1) General Obligation Bonds	(2,3,4,5,6,10, 17, 20) Lease Revenue Bonds	(3) Certificates of Participation	(4, 18) Tax Allocation Bonds	(2,7,8,16, 21) Loans Payable	Capital Leases Payable	Total Governmental Activities
2005	\$	\$ 88,980,733	\$ 4,605,000	\$ 12,085,203	\$ 4,131,369	\$ 476,207	\$ 110,278,512
2006		83,571,167	4,290,000	10,580,371	5,463,369	281,243	104,186,150
2007	84,350,000	74,400,000	3,950,000	9,002,298	5,484,285	93,895	177,280,478
2008	83,180,000	72,000,000	3,585,000	7,346,752	7,435,425		173,547,177
2009	81,800,000	69,605,000	3,190,000	5,609,556	7,297,585		167,502,141
2010	80,360,000	63,995,000	2,760,000	3,786,572	7,113,854		158,015,426
2011	78,860,000	56,000,000	2,295,000	4,033,736	6,246,320		147,435,056
2012	77,295,000	5,320,000	1,790,000		6,398,573		90,803,573
2013	75,665,000	4,830,000	1,240,000		994,926		82,729,926
2014	73,965,000	4,625,000	645,000		888,366		80,123,366

Notes:

- (1) In FY 2007, the City issued \$84,350,000 of new GO bonds for the construction of the new Public Safety Facilities.
- (2) Beginning net assets were restated in the June 30, 2003 financial statements for accretion of capital appreciation on lease revenue bonds and on loans payable. The above figures reflect the lease revenue and loans payable balances as they should have been reported in the financial statements prior to restatement in Fiscal Year 2003.
- (3) The 1991 certificates of participation were refunded with the 1999 lease revenue bonds in FY 1999.
- (4) The 1992 tax allocation bonds were refunded with 2001 lease revenue bonds in FY 2002. All 2001 lease revenue bonds have matured as of FY 2012.
- (5) Lease revenue bonds of \$6,195,000 were transferred from an enterprise fund to a debt service fund in FY 2005.
- (6) The 1995 lease revenue bonds were refunded with the 2007 lease revenue bonds in FY 2007.
- (7) The City received loans from the California Housing Finance Agency of \$800,000 in FY 2002, \$1,850,000 in FY 2004, \$1,400,000 in FY 2006, and \$2,050,000 in FY 2008.
- (8) The City received a loan from the California Energy Commission in FY 2005.
- (9) In FY 2000, the City issued the 2000 water revenue certificates of participation which refunded the 1996 water revenue bonds and funded new capital improvement projects.
- (10) The City issued the \$6,300,000 2001 JPFA Lease Revenue Bonds (Reidy Creek Project) in FY 2001.
- (11) The City issued \$9,170,000 of new water revenue certificates of participation in FY 2003.
- (12) The 1996 wastewater certificates of participation were refunded with the 2004A wastewater certificates of participation in FY 2005.
- (13) The City issued \$10,775,000 of new wastewater certificates of participation in FY 2005.
- (14) The City received loan advances from the State Water Resources Control Board revolving loan fund from FY 2000 to FY 2012. Repayment of the loans began in FY 2002.
- (15) The 2000A water revenue certificates of participation were partially refunded ( \$12,410,000) in FY 2008 with the \$30,440,000 issue of the 2007 series water revenue certificates of participation. The remaining \$9,830,000 outstanding 2000A certificates ( as of April 2012) were refunded with the issue of \$31,660,000 of 2012 JPFA Water and \$27,390,00 of JPFA Wastewater Revenue bonds.
- (16) The City received installment loans from San Diego Gas and Electric in FY 2012.
- (17) 2007A & B lease revenue bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012
- (18) 1992 tax allocation bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

Business-type Activities						
(5,9,11,12,13,15,19)		(14)				
Revenue COP & Lease Revenue Bonds	Special Tax/Assessment Bonds	Loans Payable	Total Business Activities	Total Primary Government	Percentage of Personal Income	Debt Per Capita
\$ 73,340,000	\$ 75,000	\$ 34,420,708	\$ 107,835,708	\$ 218,114,220	4.84	1,554
72,120,000	60,000	33,986,247	106,166,247	210,352,397	4.62	1,494
70,350,000	40,000	31,988,970	102,378,970	279,659,448	8.74	1,972
86,515,000	20,000	29,990,130	116,525,130	290,072,307	9.11	2,023
84,450,000		27,987,565	112,437,565	279,939,706	8.14	1,954
82,315,000		25,981,179	108,296,179	266,311,605	7.66	1,832
80,095,000		26,507,579	106,602,579	254,037,635	8.97	1,750
118,420,000		24,715,177	143,135,177	233,938,750	7.80	1,602
115,975,000		22,585,446	138,560,446	221,290,372	7.28	1,517
113,075,000		20,448,701	133,523,701	213,647,067	6.65	1,452

(19) The 2002A water revenue certificates of participation, in the remaining outstanding amount of \$8,585,000, were refunded with the April 2012 issue of \$31,660,000 of 2012 JPFA Water Revenue bonds.

(20) The 2001 JPFA Lease Revenue Bonds (Reidy Creek Project), in the remaining outstanding amount of \$5,205,000 were refunded with \$4,830,000 from the March 2013 issue of JPFA Lease Revenue Refunding Bonds, Series 2013A, and the remaining \$540,000 of Reserve funds from the 2001 JPFA issue.

(21) The \$5,300,000 remaining balance of California Housing Finance Agency loan obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency in FY 2013, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

Source:

City of Escondido Finance Department.

**CITY OF ESCONDIDO**  
**Ratio of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Outstanding General Obligation Bonded Debt				Percent of Assessed Value <sup>(1)</sup>	Per Capita	
	General Obligation Bonds	Certificates of Participation	Tax Allocation Bonds <sup>(2)</sup>	Total			
2005	\$	\$ 4,605,000	\$ 12,085,203	\$ 16,690,203	1.17	119	
2006			4,290,000	10,580,371	14,870,371	0.94	105
2007	84,350,000	3,950,000	9,002,298	97,302,298	1.10	686	
2008	83,180,000	3,585,000	7,346,752	94,111,752	1.32	656	
2009	81,800,000	3,190,000	5,609,556	90,599,556	0.77	632	
2010	80,360,000	2,760,000	3,786,572	86,906,572	0.74	598	
2011	78,860,000	2,295,000	4,033,736	85,188,736	0.74	587	
2012	77,295,000	1,790,000		79,085,000	0.68	541	
2013	75,665,000	1,240,000		76,905,000	0.66	527	
2014	73,965,000	645,000		74,610,000	0.64	507	

Notes:

(1) Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

(2) 1992 Tax Allocation Bond obligations were transferred from the City of Escondido Redevelopment Agency to the Successor Agency, as part of the required dissolution of the Redevelopment Agency effective on February 1, 2012

Source:

City of Escondido Finance Department.



**CITY OF ESCONDIDO**  
**Direct and Overlapping Debt**  
**For the Year Ended June 30, 2014**

2013-14 Assessed Valuation:	\$ 12,306,747,917
Redevelopment Agency Incremental Valuation:	2,465,229,401
Adjusted Assessed Valuation:	\$ 9,841,518,516

	Percentage Applicable <sup>(1)</sup>	Outstanding Debt 6/30/14	Estimated Share of Overlapping Debt
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>			
Metropolitan Water District	0.560 %	\$ 132,275,000	\$ 740,740
Palomar Community College District	13.186	312,768,901	41,241,707
San Marcos Unified School District School	3.583	281,096,744	10,071,696
San Marcos Unified School District School Facilities Improvement District No. 1	2.235	6,503,019	145,342
San Marcos Unified School District Community Facilities District No. 1	100.000	640,000	640,000
Escondido Union High School District	78.002	97,117,515	75,753,604
Escondido Union School District	78.773	41,259,622	32,501,442
San Pasqual Union School District	56.685	458,792	260,066
Valley Center-Pauma Unified School District	0.001	1,190,669	12
Total Overlapping Tax and Assessment Debt		873,310,262	161,354,609
<b><u>OVERLAPPING GENERAL OBLIGATION DEBT:</u></b>			
San Diego County General Fund Obligations	3.115	379,835,000	11,831,860
San Diego County Pension Obligations	3.115	720,855,256	22,454,641
San Diego County Superintendent of School Obligations	3.115	16,125,000	502,294
Palomar Community College District Certificates of Participation	13.186	4,855,000	640,180
San Marcos Unified School General Fund Obligations	3.583	55,093,327	1,973,994
Escondido Union High School District Certificates of Participation	78.002	59,525,000	46,430,691
Escondido Union School District Certificates of Participation	78.773	20,490,000	16,140,588
Palomar Pomerado Hospital District	19.155	474,823,578	90,952,456
Total Overlapping General Fund Obligation Debt		1,731,602,161	190,926,704
<b><u>OVERLAPPING TAX INCREMENT DEBT:</u></b>			
Escondido Tax Allocation Bonds			
Escondido Lease Revenue Bonds	100.000	32,070,000	32,070,000
Total Overlapping Tax Increment Debt		32,070,000	32,070,000
<b>TOTAL OVERLAPPING DEBT</b>		<b>\$ 2,636,982,423</b>	<b>\$ 384,351,313</b>
<b><u>CITY DIRECT DEBT:</u></b>			
City of Escondido General Fund Obligations	100.000 %	73,965,000	73,965,000
City of Escondido General Obligations	100.000	5,270,000	5,270,000
City of Escondido Hidden Trails Community Facilities District	100.000	2,355,000	2,355,000
City of Escondido Community Facilities District 2006-01	100.000	16,200,000	16,200,000
City of Escondido 1915 Act Bonds	100.000	4,465,000	4,465,000
<b>TOTAL CITY DIRECT DEBT</b>		<b>102,255,000</b>	<b>102,255,000</b>
<b>TOTAL DIRECT AND OVERLAPPING DEBT</b>			<b>\$ 486,606,313 <sup>(2)</sup></b>

Notes:

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of each of the overlapping district's assessed value that is within the City's boundaries and dividing it by the district's total taxable assessed value.

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

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

Source: MuniServices, LLC.

**CITY OF ESCONDIDO**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

	2005	2006	2007	2008
Assessed valuation	\$ 7,557,521,777	\$ 8,716,447,815	\$ 9,842,664,350	\$ 10,437,917,513
Conversion percentage	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
Adjusted assessed valuation	\$ 1,889,380,444	\$ 2,179,111,954	\$ 2,460,666,088	\$ 2,609,479,378
Debt limit percentage	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
Debt limit	283,407,067	326,866,793	369,099,913	391,421,907
Total Net Debt				
General Obligation Bonds			84,350,000	83,180,000
Applicable to Limit:				
Legal Debt Margin	<u>\$ 283,407,067</u>	<u>\$ 326,866,793</u>	<u>\$ 284,749,913</u>	<u>\$ 308,241,907</u>
Total Debt Applicable to the Limit as a Percentage of Debt Limit	0%	0%	23%	21%

Note:

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within that state.

Source:

City of Escondido Finance Department.

2009	2010	2011	2012	2013	2014
\$ 10,419,201,152	\$ 9,608,214,935	\$ 9,501,563,129	\$ 9,663,353,864	\$ 9,674,335,352	\$ 9,841,518,516
<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>	<u>25%</u>
\$ 2,604,800,288	\$ 2,402,053,734	\$ 2,375,390,782	\$ 2,415,838,466	\$ 2,418,583,838	\$ 2,460,379,629
<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>
390,720,043	360,308,060	356,308,617	362,375,770	362,787,576	369,056,944
81,800,000	80,360,000	78,860,000	77,295,000	75,665,000	73,965,000
<u>\$ 308,920,043</u>	<u>\$ 279,948,060</u>	<u>\$ 277,448,617</u>	<u>\$ 285,080,770</u>	<u>\$ 287,122,576</u>	<u>\$ 295,091,944</u>
21%	22%	22%	21%	21%	20%

**CITY OF ESCONDIDO**  
**Pledged-Revenue Coverage**  
**Last Ten Fiscal Years**

**1999 Lease Revenue Bonds**

Fiscal Year Ended June 30	Low/Mod Tax Increment & Other Revenue	Less: Housing Fund Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 4,243,671	\$ 942,754	\$ 3,300,917	\$ 1,025,000	\$ 90,900	2.96
2006	6,083,947	1,303,187	4,780,760	1,310,000	42,983	3.53
2007 <sup>(2)</sup>						
2008						
2009						
2010						
2011						
2012						
2013						
2014						

**2001 Lease Revenue Bonds**

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 411,683	\$	\$ 411,683	\$ 115,000	\$ 296,683	1.00
2006	422,395		422,395	130,000	292,395	1.00
2007	427,320		427,320	140,000	287,320	1.00
2008	431,520		431,520	150,000	281,520	1.00
2009	347,190		347,190	70,000	277,190	1.00
2010	354,300		354,300	80,000	274,300	1.00
2011	360,940		360,940	90,000	270,940	1.00
2012	367,015		367,015	100,000	267,015	1.00
2013	404,925		404,925	115,000	289,925	1.00
2014 <sup>(6)</sup>						

**1993 Certificates of Participation**

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2004	\$ 686,788	\$	\$ 686,788	\$ 270,000	\$ 416,788	1.00
2005	684,870		684,870	290,000	394,870	1.00
2006	685,815		685,815	315,000	370,815	1.00
2007	684,445		684,445	340,000	344,445	1.00
2008	680,710		680,710	365,000	315,710	1.00
2009	679,352		679,352	395,000	284,352	1.00
2010	679,900		679,900	430,000	249,900	1.00
2011	677,310		677,310	465,000	212,310	1.00
2012	676,570		676,570	505,000	171,570	1.00
2013	677,260		677,260	550,000	127,260	1.00
2014	674,170		674,170	595,000	79,170	1.00

### 2013A Lease Revenue Refunding Bonds

Fiscal Year Ended June 30	Loan Payment Revenue	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$	\$	\$	\$	\$	
2006						
2007						
2008						
2009						
2010						
2011						
2012						
2013	<sup>(6)</sup> 404,925		404,925			n/a
2014	359,714		359,714	205,000	154,714	1.00

### Water and Wastewater Revenue and Revenue Certificates of Participation

Fiscal Year Ended June 30	Charges for Services and Other Revenue	Less Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 49,483,225	\$ 41,017,100	\$ 8,466,125	\$ 782,876	\$ 3,093,741	2.18
2006	63,178,518 <sup>(1)</sup>	44,933,767	18,244,751	1,235,000	3,985,477	3.49
2007	68,444,251	50,652,440	17,791,811	1,790,000	3,472,448	3.38
2008	70,037,925	53,617,950	16,419,975	14,295,000 <sup>(3)</sup>	3,652,947	0.91
2009	71,613,953	51,599,265	20,014,688	2,065,000	4,011,542	3.29
2010	72,191,950	52,131,987	20,059,963	2,135,000	3,937,058	3.30
2011	67,713,179	49,064,535	18,648,644	2,220,000	3,852,716	3.07
2012	71,296,465	53,021,213	18,275,252	2,310,000 <sup>(4)</sup>	4,020,204	2.89
2013	79,799,930	60,004,862	19,795,068	2,445,000 <sup>(5)</sup>	5,169,939	2.60
2014	86,667,661	65,419,946	21,247,715	2,900,000	5,331,367	2.58

### Special Assessment Debt - Auto Parkway

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2004	\$ 325,795	\$	\$ 325,795	\$ 150,000	\$ 185,994	0.97
2005	342,121		342,121	150,000	178,869	1.04
2006	309,955		309,955	160,000	171,349	0.94
2007	373,134		373,134	165,000	163,304	1.14
2008	324,507		324,507	175,000	154,760	0.98
2009	333,284		333,284	185,000	145,624	1.01
2010	335,748		335,748	195,000	135,422	1.02
2011	338,480		338,480	205,000	124,172	1.03
2012	347,187		347,187	215,000	112,359	1.06
2013	343,514		343,514	225,000	99,984	1.06
2014	347,171		347,171	240,000	86,906	1.06

**CITY OF ESCONDIDO**  
**Pledged-Revenue Coverage (continued)**  
**Last Ten Fiscal Years**

**Special Assessment Debt - Hidden Trails**

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$ 271,990	\$	\$ 271,990	\$ 45,000	\$ 180,113	1.21
2006	211,414		211,414	50,000	178,020	0.93
2007	580,694		580,694	50,000	175,708	2.57
2008	257,430		257,430	55,000	173,173	1.13
2009	240,612		240,612	65,000	170,423	1.02
2010	229,274		229,274	60,000	166,850	1.01
2011	238,709		238,709	75,000	162,900	1.00
2012	209,432		209,432	65,000	159,357	0.93
2013	229,435		229,435	70,000	155,610	1.02
2014	<sup>(7)</sup> 227,470		227,470	75,000	130,338	1.11

**Special Assessment Debt - Eureka Ranch**

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2005	\$	\$	\$	\$	\$	
2006						
2007	2,031,526		2,031,526		302,325	6.72
2008	1,073,930		1,073,930		906,975	1.18
2009	1,451,135		1,451,135		906,975	1.60
2010	1,419,402		1,419,402	320,000	893,243	1.17
2011	1,182,479		1,182,479	330,000	879,630	0.98
2012	1,225,888		1,225,888	345,000	865,114	1.01
2013	1,252,550		1,252,550	360,000	849,600	1.04
2014	1,231,047		1,231,047	375,000	833,058	1.02

**Special Assessment Debt - Rancho San Pasqual**

Fiscal Year Ended June 30	Special Assessment Collections	Less: Expenditures	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2004	\$ 396,183		\$ 396,183	\$ 95,000	\$ 255,368	1.13
2005	568,965		568,965	350,000	243,189	0.96
2006	341,255		341,255	100,000	231,313	1.03
2007	405,396		405,396	105,000	226,135	1.22
2008	343,088		343,088	115,000	220,468	1.02
2009	335,979		335,979	120,000	214,298	1.01
2010	351,695		351,695	125,000	207,774	1.06
2011	351,270		351,270	130,000	200,920	1.06
2012	357,610		357,610	140,000	193,595	1.07
2013	350,697		350,697	145,000	185,793	1.06
2014	355,975		355,975	155,000	177,543	1.07

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Notes:

- (1) 2006 revenues reflect an increase in water sales, wastewater service charge rates, and recycled water sales and the inclusion of connection fees.
- (2) The 1999 Lease Revenue Bonds were paid during fiscal year 2006.
- (3) 2000A Series Water Revenue Certificates of Participation were partially refunded during fiscal year 2008.
- (4) The 2000A and 2002A Series Water Revenue Certificates of Participation were fully refunded during fiscal year 2012.
- (5) The 2012 Series Water Revenue Bonds and Wastewater Revenue Bonds were issued during fiscal year 2012.
- (6) The 2001 JPFA Lease Revenue Bonds Series Water Revenue Bonds were fully refunded during fiscal year 2013 with the issuance of the 2013A Series JPFA Lease Revenue Refunding Bonds.
- (7) The Special Tax Bonds for the CFD 2000-01 (Hidden Trails) were refunded in during fiscal year 2013 with the issuance of the 2013 Series Bonds.

Source:

City of Escondido Finance Department.

**CITY OF ESCONDIDO**  
**Demographic and Economic Statistics**  
**Last Ten Calendar Years**

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Calendar Year	Population <sup>(1)</sup>	Personal Income (in millions) <sup>(2)</sup>	Per Capita Income <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
2004	140,328	4,510	32,100	4.7
2005	140,803	4,550	32,300	4.3
2006	141,788	3,198	22,556	4.2
2007	143,389	3,182	22,198	4.8
2008	143,259	3,438	23,999	6.2
2009	145,388	3,477	23,914	10.1
2010	145,196	2,833	19,514	10.6
2011	146,064	2,999	20,536	9.9
2012	145,908	3,040	20,836	9.3
2013	147,102	3,214	21,851	7.9

Sources:

(1) California State Department of Finance Projections.

(2) United States Census data, adjusted for inflation. Fluctuation in per capita income from 2005 to 2006 is due to a change in source data.

(3) EDD Bureau of Labor Statistics Department.



**CITY OF ESCONDIDO**  
**Principal Employers**  
**Current Year and Nine Years Ago**

Employer	2014		2005	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment <sup>(1)</sup>
Palomar Medical Center	3,290	4.44 %	1,450	
Escondido Union School District	1,804	2.43	1,847	
Welk Group Inc	1,200	1.62		
San Diego Wild Animal Park	1,100	1.48		
City of Escondido	1,082	1.46	1,118	
Escondido Union High School District	861	1.16	750	
Vons Grocery Stores	360	0.49		
Home Depot <sup>(3)</sup>	350	0.47		
Nordstrom Inc.	290	0.39	420	
Palomar Community College District	211	0.28		
North County Transit District			622	
ARS National Services Inc			520	
Coronado Funding Group			500	
SDG&E			400	
Pacific Bell			325	

Notes:

"Total Employment" as used above represents the total employment of all employers located within City limits.

(1) The percent of total employment for 2005 was unavailable.

(2) Number includes Escondido and San Diego County employees.

(3) Employee Count was confirmed for only one of the two Home Depot locations. Last years employee count was used again for the unattainable Home Depot.

Source:

MuniServices, LLC.

**CITY OF ESCONDIDO**  
**Full-time and Part-time City Employees by Function**  
**Last Ten Fiscal Years**  
**As of June 30**

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government	108	113	120	118	112	110	109	106	108	111
Public Safety	362	374	404	397	377	381	375	360	374	383
Public Works	161	168	175	156	149	142	143	151	154	148
Community Development	51	55	58	53	42	39	38	37	35	36
Community Services	203	236	280	265	221	225	224	216	225	206
Housing & Neighborhood Services	11	11	13	13	13	14	15	12	10	10
Water	114	116	124	121	119	117	118	118	114	114
Wastewater	63	71	74	75	72	74	75	73	71	82
Total	1,073	1,144	1,248	1,198	1,105	1,102	1,097	1,073	1,091	1,090

Source:

City of Escondido Finance Department.



**CITY OF ESCONDIDO**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

Function	2005	2006	2007	2008
<b>Police:</b>				
Physical Arrests	6,538	7,126	7,359	7,373
Traffic Violations	14,220	18,396	21,580	20,496
Parking Violations	6,530	8,075	8,909	8,295
<b>Fire:</b>				
Number of Calls Answered	10,547	10,416	10,515	10,650
Number of Inspections Conducted	780	1,851	1,880	1,738
<b>Public Works<sup>(1)</sup>:</b>				
Street Resurfacing (miles)		2.5	4.5	2.3
<b>Parks and Recreation<sup>(1)</sup>:</b>				
Number of Recreation Classes	1,124	1,093	832	977
Number of Facility Rentals	919	919	998	987
Golf Rounds Played	82,231	87,196	90,014	95,149
<b>Water:</b>				
Number of Service Connections	25,338	25,559	25,972	26,161
Average Daily Consumption (gallons)	25,608,270	27,285,671	27,301,940	25,500,000
<b>Sewer:</b>				
Number of Service Connections	25,338	26,190	26,503	26,702
Average Daily Treatment (gallons)	14,700,000	14,400,000	14,300,000	14,320,000

Note:

(1) No data was available for Public Works prior to 2006. A new registration process for recreation was implemented in 2013.

Source:

City of Escondido.

2009	2010	2011	2012	2013	2014
7,004	7,190	7,617	7,032	5,988	5,740
21,438	16,956	13,811	13,054	9,782	8,454
7,942	7,606	5,784	4,514	4,022	4,328
11,237	11,544	11,370	11,978	13,065	13,139
3,105	2,059	2,222	1,380	1,741	1,496
1.1	1.5	9.5	3.0	19.3	18.6
1,228	1,101	1,176	990	1,275	2,410
982	1,106	1,125	995	2,541	1,975
100,192	97,683	95,020	95,934	95,528	97,094
26,280	26,390	26,489	26,502	26,508	26,536
23,170,000	18,799,222	18,835,000	20,220,000	23,370,000	22,579,315
26,909	27,014	27,066	27,054	27,072	27,102
13,000,000	12,500,000	12,900,000	12,730,000	12,630,000	12,100,000

**CITY OF ESCONDIDO**  
**Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

Function	2005	2006	2007	2008
<b>Police:</b>				
Stations	1	1	1	1
<b>Fire:</b>				
Stations	5	5	5	5
<b>Public Works:</b>				
Streets (miles)	291.3	295.3	299.2	302.0
Streetlights	4,595	4,749	5,691	6,382
Traffic Signals	111	117	126	135
<b>Parks and Recreation:</b>				
Parks	13	13	14	14
Community Centers	3	3	3	3
Golf Courses	2	2	2	2
<b>Water:</b>				
Water Mains (miles)	376	415	418	425
Maximum Daily Plant Capacity (gallons)	75,000,000	75,000,000	75,000,000	75,000,000
<b>Sewer:</b>				
Sanitary Sewers (miles)	362	369	375	375
Storm Drains (miles)	328	329	378	380
Maximum Daily Treatment Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000

Source:

City of Escondido.

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
1	1	1	1	1	1
7	7	7	7	7	7
302.0	304.4	304.6	304.9	305.0	305.0
6,408	6,460	6,479	6,480	6,479	6,487
139	146	148	148	151	152
14	14	14	14	14	14
3	3	3	3	3	3
2	2	2	2	2	2
429	430	430	430	431	431
75,000,000	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
375	351	352	355	363	379
380	380	381	383	382	377
18,000,000	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000





The logo for the City of Escondido, featuring the name in a stylized, yellow-outlined font.

City of Escondido

CALIFORNIA

A large green metal archway with a lattice structure, spanning across the top of the page. The words "MAPLE STREET PLAZA" are written in large, yellow, block letters across the center of the arch.

MAPLE STREET PLAZA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

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**APPENDIX C**

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

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

June \_\_, 2015

City Council  
City of Escondido  
201 North Broadway  
Escondido, California 92025

*Re:     \$\_\_\_\_\_ City of Escondido General Obligation Refunding Bonds Series 2015 (Fire, Police and Emergency Response Measure)*

Members of the City Council:

We have acted as bond counsel for the City of Escondido (the “City”) in connection with the authorization and issuance of the above-referenced bonds (the “Bonds”). The Bonds are authorized pursuant to Chapter 4 (commencing with Section 43600) of Division 4 of Title 4 and Articles 9 and 11, Chapter 3, Part 1 of Division 2 of the Government Code of the State of California (collectively, the “Act”) and Resolution No. 2015-60 of the City adopted on April 22, 2015, together with that certain Supplement to Resolution No. 2015-60 dated as of June 1, 2015 executed in connection therewith (collectively, the “Resolution”). Capitalized terms used herein and not defined shall have the meanings given such terms in the Resolution.

In connection therewith, we have examined originals or copies identified to our satisfaction as being true copies of the Resolution and certain other documents and records of the City. As to questions of fact material to our opinion, we have relied upon certifications of officers of the City, the initial purchasers of the Bonds and others which have been furnished to us, but we have not undertaken to verify the accuracy thereof through independent investigation.

Based upon and subject to the foregoing, and in reliance thereon, we are of the following opinions:

1.       The Bonds have been duly and validly authorized and constitute legal, valid and binding obligations of the City enforceable in accordance with their terms and the terms of the Resolution. The Bonds are obligations of the City but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation.

2.       The Resolution has been duly adopted by the City Council of the City and constitutes a legal, valid and binding obligation of the City. The Resolution is enforceable in accordance with its terms; provided, however, that we express no opinion as to the enforceability of provisions of the Resolution as to indemnification, penalty, contribution, choice of law, choice of forum or waiver contained therein.

3.       The Bonds are secured by the proceeds of *ad valorem* taxes levied upon all property subject to such taxes in the City, which taxes are unlimited as to rate or amount (except as to certain personal property which is taxable at limited rates) for payment of the Bonds and the interest thereon.

4.       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 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

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

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

7. The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable 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 Bond owner's basis in the applicable 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 Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The opinions expressed herein as to the exclusion from gross income for federal income tax purposes of interest on the Bonds are based upon certain representations of fact and certifications made by the City and are subject to the condition that the City 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 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 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City has covenanted to comply with all such requirements. Except as expressly stated herein, we express no opinion as to any tax consequences related to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Resolution and the Tax Certificate executed by the City with respect to the 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. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on the 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.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Resolution.

The opinions expressed herein and the exclusion of interest on the 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. Our engagement as Bond Counsel terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

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. We call attention to the fact that the rights and obligations under the Resolution and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

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.

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 purchaser or owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

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## APPENDIX D

### PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

*Upon issuance of the Bonds, the City 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 City of Escondido (the “City”) in connection with the issuance of the City of Escondido General Obligation Refunding Bonds Series 2015 (Fire, Police and Emergency Response Measure) (the “Bonds”). The Bonds are being issued pursuant to a Resolution of the City dated April 22, 2015 (as supplemented by the Supplement to Resolution dated as of June 1, 2015, the “Resolution”). The City covenants and agrees as follows:

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

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

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

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

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

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

Holder. The term “Holder” means a registered owner of the Bonds.

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

Official Statement. The term “Official Statement” means the Official Statement dated May \_\_, 2015 relating to the Bonds.

Participating Underwriter. The term “Participating Underwriter” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

3. Provision of Annual Reports.

(a) The City shall provide not later than March 1 following the end of its Fiscal Year (commencing with the March 1 following the Fiscal Year ending June 30, 2015) to EMMA an Annual Report relating to the immediately preceding Fiscal Year which is consistent with the requirements of Section 4 of this Disclosure

Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City 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. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

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

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

(b) Material financial information and operating data with respect to the City of the type included in the Official Statement in the following categories (to the extent not included in the City's audited financial statements):

(i) Summary financial information on revenues, expenditures and fund balances for the City's general fund reflecting the adopted budget for the prior Fiscal Year; and

(ii) Updated information comparable to the annual assessed valuation information set forth in Table 1 in the Official Statement.

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

5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB);



6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

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

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

1. unless described in Section 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

2. modifications to the rights of Bond holders;

3. optional, unscheduled or contingent Bond redemptions;

4. release, substitution or sale of property securing repayment of the Bonds;

5. non-payment related defaults;

6. the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

7. appointment of a successor or additional trustee or the change of the name of a trustee.

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

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

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

8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided

that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City.

9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

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

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

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

12. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California.

Dated: June \_\_, 2015

CITY OF ESCONDIDO

By: \_\_\_\_\_  
Its: City Manager

## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book entry only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

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

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

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

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

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

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

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

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

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bond by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bond in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bond are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Bond to the Paying Agent's DTC account.

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

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

**THE PAYING AGENT, AS LONG AS A BOOK ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.**





FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272